CENTRAL BANK OF NIGERIA

ANNUAL REPORT 2018

Central Bank of Nigeria
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Vision

"Be THE MODEL CENTRAL BANK delivering PRICE and FINANCIAL SYSTEM STABILITY and promoting SUSTAINABLE ECONOMIC DEVELOPMENT".

Mission

To be proactive in providing a stable framework for the economic development of Nigeria, through the effective, efficient and transparent implementation of monetary and exchange rate policy, and management of the financial sector.

THE CENTRAL BANK OF NIGERIA

Established by the Central Bank of Nigeria *(CBN) Act of 1958,* the principal objects of the Bank, as contained in the new *CBN Act, 2007*, are to:

- ensure monetary and price stability;
- issue legal tender currency in Nigeria;
- maintain external reserves to safeguard the international value of the legal tender currency;
- promote a sound financial system in Nigeria; and
- act as banker and provide economic and financial advice to the Federal Government of Nigeria.

BOARD OF DIRECTORS

AS AT 31st DECEMBER, 2018

MEMBERS OF THE BOARD OF DIRECTORS OF THE BANK
AS AT 31ST DECEMBER, 2018

Following the dissolution of the Board in July 2015, a new Board was yet to be constituted as at 31st December, 2017.

MEMBERS OF THE COMMITTEE OF GOVERNORS OF THE BANK AS AT 31ST DECEMBER, 2018

1.	Godwin I. Emefiele, CON	-	Governor (Chairman)
2.	Okwu J. Nnanna	-	Deputy Governor (Financial System Stability/ Economic Policy)
3.	Adebayo A. Adelabu	-	Deputy Governor (Operations / Corporate Services)
4.	Alice Karau	-	Secretary

MEMBERS OF THE MONETARY POLICY COMMITTEE (MPC) AS AT 31ST DECEMBER, 2018

1.	Godwin I. Emefiele, CON	-	Governor (Chairman)
2.	Okwu J. Nnanna	-	Deputy Governor (Financial System Stability/ Economic Policy)
3.	Adebayo A. Adelabu	-	Deputy Governor (Operations / Corporate Services)
4.	Dahiru Balami	-	Member
5.	Abdul-Ganiyu Garba	-	Member
6.	Adedoyin R. Salami	-	Member
7.	Chibuike C. Uche	-	Member
8.	Shehu Yahaya	-	Member
	Moses. K. Tule	-	Secretary

PRINCIPAL OFFICERS OF THE BANK AS AT 31ST DECEMBER, 2018

A. Departmental Directors

1.	Dipo T. Fatokun	-	Banking & Payments System
2.	Ahmad Abdullahi	-	Banking Supervision
3.	Salisu Rabeh	-	Branch Operations
4.	Chizoba V. Mojekwu (Ms.)	-	Capacity Development
5.	Umma Dutse (Haj.)	-	Consumer Protection
6.	Isaac Okoroafor*	-	Corporate Communications
7.	Alice Karau*	-	Corporate Secretariat
8.	Prescilia Eleje*	-	Currency Operations
9.	Mudashir A. Olaitan	-	Development Finance
10.	Moro D. Arowosegbe	-	Finance
11.	Alvan E. Ikoku	-	Financial Markets
12.	Kevin N. Amugo	-	Financial Policy and Regulation
13.	Mohammed D. Suleyman***	-	FSS 2020
14.	Anthony C. Ifechikwu	-	Governors' Department

15.	Lametek E. Adamu	-	Human Resources
16.	John I. Ayoh	-	Information Technology
17.	Vivian I. Agu (Mrs.)	-	Internal Audit
18.	Johnson O. Akinkumi	-	Legal Services
19.	Faozat A. O. Bello (Mrs.)	-	Medical Services
20.	Moses K. Tule	-	Monetary Policy
21.	Agnes O. Martins	-	Other Financial Institutions Supervision
22.	Lazarus M. Agbor	-	Procurement & Support Services
23.	Uwatt B. Uwatt	-	Research
24.	Tirmidhi M. Yakubu	-	Reserve Management
25.	Oluwafolakemi J. Fatogbe (Ms.)	-	Risk Management
26.	Olugbenga I. Amu	-	Security Services
27.	Tumala, M. Musa	-	Statistics
28.	Ibrahim Mu'azu	-	Strategy Management
29.	Wuritka Dauda Gotring	-	Trade & Exchange
30.	Eunice N. Egbuna**	-	Secondment to WAMI

* Overseeing the Department
** On secondment
*** On posting

B. Special Advisers to the Governor

1.	Leonard K. Chumo	-	Banking Supervision
2.	Kingsley Obiora	-	Economic Matters
3.	Emmanuel Ukeje	-	Financial Markets
4.	Yakubu Umar	-	Non-Interest Banking
5.	Titus O. Odozi	-	Nigerian Security Printing and Minting (NSPM) Plc.
6.	Aisha U. Mahmoud	-	Sustainable Banking

C. Branch Controllers/Currency Officers

1.	Obiekwe A. Obiageli (Mrs.)	-	Abakaliki
2.	Amao A. Babatunde	-	Abeokuta
3.	Agu E. Oyibo	-	Abuja
4.	Iwuaru C. Chibueze	-	Ado-Ekiti
5.	Yusuf F. Adebare	-	Akure
6.	Ikeghagu C. Hyacinth	-	Asaba
7.	Sokari C. Monday	-	Awka
8.	Umar A. Bello	-	Bauchi
9.	Jumbo R. Davis	-	Benin
10.	Babah N. Asmau (Mrs.)	-	Birnin-Kebbi
11.	Kalio I. Graham	-	Calabar
12.	Dibola I. Aliyu	-	Damaturu
13.	Zakirai T. Ibrahim	-	Dutse
14.	Okonjo C. Emmanuel	-	Enugu
15.	Goringo S. Alhaji	-	Gombe
16.	Abba B. Ibrahim	-	Gusau
17.	Olatinwo F. Musibau	-	Ibadan
18.	Ndarake E. Akpan	-	Ilorin
19.	Abdullahi S. Mohammed	-	Jalingo
20.	Jewon S. Jatau	-	Jos
21.	Saleh S. Yargoje	-	Kaduna
22.	Abubakar P. Amina (Mrs.)	-	Kano
23.	Joda A. Hamman	-	Katsina
24.	Ghasarah B. Ateh	-	Lafia
25.	Iyari O. James	-	Lagos
26.	Bafai B. Musa	-	Lokoja
27.	Ibrahim Isyaku	-	Maiduguri
28.	Achebe A. Emeka	-	Makurdi
29.	Ibrahim M. Tulu	-	Minna
30.	Bamidele B. Ibrahim	-	Osogbo
31.	Itohan M. Ogbomon-Paul	-	Owerri
32.	Alaka K. Adekunle	-	Port Harcourt
33.	Wali Yusuf	-	Sokoto
34.	Aqua V. Edem.	-	Umuahia
35.	Nwokoro O. Cletus	-	Uyo
36.	Nwajana G. Obiora	-	Yenagoa
37.	Hussein Shuaibu	-	Yola

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LIST OF ABBREVIATIONS AND ACRONYMS

AACB	Association of African Central Banks
ABS	Analytical Balance Sheet
ACGSF	Agricultural Credit Guarantee Scheme Fund
ACSS	Agricultural Credit Support Scheme
ADF	African Development Fund
ADPs	Agricultural Development Programmes
AES	African Econometrics Society
AFC	Africa Finance Corporation
AfDB	African Development Bank
AGOA	African Growth Opportunity Act
AIPs	Approvals-In-Principle
AMCON	Asset Management Corporation of Nigeria
AMCP	African Monetary Cooperation Programme
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
ATAP	Agricultural Transformation Action Plan
APRM	Africa Peer Review Mechanism
ATMs	Automated Teller Machines
AU	African Union
AUC	Africa Union Commission
BAs	Bankers' Acceptances
BDCs	Bureaux-de-Change
BoE	Bank of England
BOI	Bank of Industry
BWIs	Bretton Woods Institutions
CAC	Corporate Affairs Commission
CACS	Commercial Agriculture Credit Scheme
CAMA	Companies and Allied Matters Act
CAMEL	Capital Adequacy, Asset Quality, Management Efficiency, Earnings and Liquidity
CAR	Capital Adequacy Ratio

CBN	Central Bank of Nigeria
CBP	Capacity Building Programme
CBs	Community Banks
CDMA	Code Division Multiple Access
CEPR	Centre for Economic Policy Research
CG	Credit to Government
CIC	Currency-in-Circulation
CIFTS	Central Bank Interbank Funds Transfer System
CIS	Commonwealth of Independent States
CIT	Companies Income Tax
COB	Currency Outside Banks
COBEC	Code of Business Ethics and Conduct
COPAL	Cocoa Producers' Alliance
CPS	Credit to the Private Sector
CPI	Consumer Price Index
CP	Commercial Paper
CRMS	Credit Risk Management System
CRR	Cash Reserve Requirement
CSAR	Country Self-Assessment Report
CSCS	Central Securities Clearing System
CSOs	Civil Society Organisations
DFIs	Development Finance Institutions
DHs	Discount Houses
DLF	Direct Lending Facilities
DISCOs	Distribution Companies
DMBs	Deposit Money Banks
DMO	Debt Management Office
DS	Development Stocks
ECB	European Central Bank
EBP	Electronic Budgeting and Planning
EBSCO Host	EBSCO Host Research Database

ECA	Economic Commission for Africa
ECOWAS	Economic Community of West African States
EDCs	Entrepreneurship Development Centres
EEG	Export Expansion Grant
e-FASS	Electronic Financial Analysis and Surveillance System
EFCC	Economic and Financial Crimes Commission
e-FinA	Enhancing Financial Innovation and Access
EMDCs	Emerging Markets and Developing Economies
e-Money	Electronic Money
EMS	Enterprise Management and Security
ERP	Enterprise Resource Planning
ETF	Education Tax Fund
FAAC	Federation Accounts Allocation Committee
FCs	Finance Companies
FCT	Federal Capital Territory
FDI	Foreign Direct Investment
FGN	Federal Government of Nigeria
FHAN	Finance Houses Association of Nigeria
FIRS	Federal Inland Revenue Service
FITC	Financial Institutions Training Centre
FMF	Federal Ministry of Finance
fob	Free on Board
FRIN	Forestry Research Institute of Nigeria
FSS 2020	Financial System Strategy 2020
G-24	Group of Twenty-Four (G24) Developing Countries
GDP	Gross Domestic Product
GENCOs	Generation Companies
GES	Growth Enhancement Scheme
GSM	Global System of Mobile Communications
IAS	International Accounting Standards
IBRD	International Bank for Reconstruction and Development

ICCO	International Cocoa Organization
ICO	International Coffee Organization
IDA	International Development Assistance
IDMS	Integrated Document Management System
IEA	International Energy Agency
IFAD	International Fund for Agricultural Development
IFT	Interbank Funds Transfer
IGR	Internally Generated Revenue
IIP	International Investment Position
ILN	Interactive Learning Network
IMF	International Monetary Fund
IPI	Information Publication Investment
IPOs	Initial Public Offers
IPPs	Independent Power Plants
ISPs	Internet Service Providers
IT	Information Technology
ITU	International Telecommunication Union
JSTOR	Journal Storage
JVCs	Joint Venture Cash Calls
KYC	Know Your Customer
LOKAP	Lagos, Kano, Aba and Port-Harcourt
LPFO	Low Pour Fuel Oil
LR	Liquidity Ratio
LROs	Lead Research Organisations
LVIFT	Large Value Interbank Funds Transfer
M_1	Narrow Money
M_2	Broad Money
mbd	Million barrels per day
MDGs	Millennium Development Goals
MFBs	Microfinance Banks
MICR	Magnetic Ink Character Recognition

MMDs	Money Market Dealers
MoU	Memorandum of Understanding
MPC	Monetary Policy Committee
MPR	Monetary Policy Rate
MRR	Minimum Rediscount Rate
MSME	Micro Small and Medium Enterprises
MTEF	Medium-Term Expenditure Framework
MYTO	Multi-Year Tariff Order
NACRDB	Nigerian Agricultural, Cooperative and Rural Development Bank
NACS	Nigerian Automated Clearing System
NAFDAC	National Agency for Food, Drug Administration and Control
NAICOM	National Insurance Commission
NAOC	Nigeria Agip Oil Company
NAPCON	National Petroleum Company of Nigeria
NAPRI	National Animal Production Research Institute
NBS	National Bureau of Statistics
NCS	Nigeria Custom Service
NDC	Net Domestic Credit
NDIC	Nigeria Deposit Insurance Corporation
NEEDS	National Economic Empowerment and Development Strategy
NEER	Nominal Effective Exchange Rate
NEPAD	New Partnership for Africa's Development
NERC	National Electricity Regulatory Commission
NERFUND	National Economic Reconstruction Fund
NEXIM	Nigerian Export-Import Bank
NFAs	Net Foreign Assets
NGC	Nigerian Gas Company
NGOs	Non-Governmental Organisations
NIBBS	Nigeria Interbank Settlement System
NIBOR	Nigerian Inter-Bank Offered Rate
NICPAS	Nigerian Cheque Printers Accreditation Scheme

NIMASA	Nigerian Maritime Administration and Safety Agency
NITDF	National Information Technology Development Fund
NNPC	Nigerian National Petroleum Corporation
NPC	National Population Commission
NPSC	National Payments System Committee
NSE	Nigerian Stock Exchange
NSPFS	National Special Programme for Food Security
NSPM	Nigerian Security Printing and Minting
NTBs	Nigerian Treasury Bills
NWG	National Working Group
OAGF	Office of the Accountant General of the Federation
OARE	Online Access to Research in the Environment
OBB	Open-Buy-Back
ODA	Overseas Development Assistance
OFIs	Other Financial Institutions
OMO	Open Market Operations
OPEC	Organisation of Petroleum Exporting Countries
OTC	Over-the-Counter
P&A	Purchase and Assumption
PENCOM	National Pension Commission
PEP	Politically Exposed Person
PHCN	Power Holding Company of Nigeria
PIR	Process Improvement and Redesign
PMIs	Primary Mortgage Institutions
PMS	Portfolio Management System
PoS	Point-of-Sale
PPT	Petroleum Profit Tax
PSI	Policy Support Instrument
PSV	Payments System Vision
QE	Quantitative Easing
RBDAs	River Basins Development Authorities

RBS	Risk Based Supervision
rDAS	Retail Dutch Auction System
REC	Regional Economic Commission
REER	Real Effective Exchange Rate
RRF	Refinancing and Restructuring Fund
RTEP	Root and Tuber Expansion Project
RTGS	Real Time Gross Settlement
S4	Scripless Securities Settlement System
SBUs	Strategic Business Units
SEC	Securities and Exchange Commission
SFU	Special Fraud Unit
SITC	Standard International Trade Classification
SME	Small and Medium Enterprises
SMECGS	Small and Medium Enterprises Credit Guarantee Scheme
SMEDAN	Small and Medium Enterprises Development Agency
SMEEIS	Small and Medium Enterprises Equity Investment Scheme
SME-RRF	SME Refinancing and Restructuring Fund
SON	Standards Organisation of Nigeria
SPDC	Shell Petroleum Development Company
SSA	Sub-Saharan Africa
SSC	South - South Cooperation
SWETS	SWETS Wise-Database Consolidators
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TCs	Travellers' Cheques
TFM	Trust Fund Model
TIB	Temenos Internet Banking
TSA	Treasury Single Account
UAT	User Acceptance Test
UNIDO	United Nations Industrial Development Organisation
VAT	Value Added Tax
WABA	West African Bankers Association

WACB	West African Central Bank
WAIFEM	West African Institute for Financial and Economic Management
WAMA	West African Monetary Agency
WAMI	West African Monetary Institute
WAMZ	West African Monetary Zone
WB	The World Bank
wDAS	Wholesale Dutch Auction System

GOVERNOR'S PICTURE

STATEMENT BY THE GOVERNOR

Many would agree that the year 2017 was an enthralling and exerting one for the Central Bank of Nigeria (CBN) and for the Nigerian economy on the whole. As I present the 2017 Annual Report and Statement of Accounts of the CBN, I am delighted to note that the economic uncertainties and foreign exchange challenges endured in the preceding year began to abate during 2017. The onset of economic turnaround witnessed during the year was accompanied by brightening short-term outlook even as global recovery remained less-than-expected. I thank my Deputies and indeed the entire staff of the Bank for their support and diligence through those very unsavoury periods.

Amidst the remaining economic fragilities during the year, the Bank experienced significant changes in its governance structure. To begin with, I wish to acknowledge the contributions of two former Deputy Governors, Dr. Sarah O. Alade and Alh. Suleiman Barau, who exited the Bank on 24 March 2017 and on 12 December 2017, respectively, after ten years of meritorious service to the nation. In addition to these, four members of the Bank's Monetary Policy Committee — Prof. Abdul-Ganiyu Garba, Prof. Chibuike U. Uche, Dr. Shehu Yahaya, and Dr. Adedoyin Salami — completed their terms in November 2017. The Bank is immensely grateful to the exiting Deputy Governors and external MPC members for their selfless services and invaluable input which will be greatly missed. We wish them the best of luck in their future endeavours.

During the year, Mrs. Aisha Ahmad was nominated as Deputy Governor by President Muhammadu Buhari, *GCFR*. The President also nominated Prof. Festus Adeola Adenikinju, Dr. Robert Chikwedu Asogwa, Dr. Aliyu Rafindadi

Sanusi, and Dr. Asheikh A. Maidugu as external members of the MPC. Similarly, Prof. Ummu Ahmed Jalingo, Prof. Michael Idiahi Obadan, Prof. Justitia Odinakachukwu Nnabuko, Mr. Adeola Adetunji, and Dr. Abdu Abubakar were nominated as non-executive members of the CBN Board. I congratulate all the nominees and look forward to a cordial and effective working relationship. Given the extensive background and wealth of experiences of these nominees, I believe that their contributions to the Bank will indeed be immeasurable.

In 2017, the global economy witnessed a gradual dissipation of the vulnerabilities that hitherto undermined growth and outlook. The observed recovery of global growth reflected the uptick global demand, strengthened business and consumer confidence, the benign global financial environment, and the significant pickups in investment, trade, and industrial production, among others. This occasioned an increase in global crude oil demand and led to oil price recoveries. Accordingly, the average spot price of Nigeria's reference crude, the Bonny Light (37°API), rose 12.5 per cent from US$48.82 per barrel in 2016 to US$54.91 per barrel in 2017. Nonetheless, the risks associated with the pervasive global geopolitical tensions, protectionist overtones in some major economies, and the potential US-Fed instigated capital flow reversals from many emerging market economies are veritable threats to the global recovery.

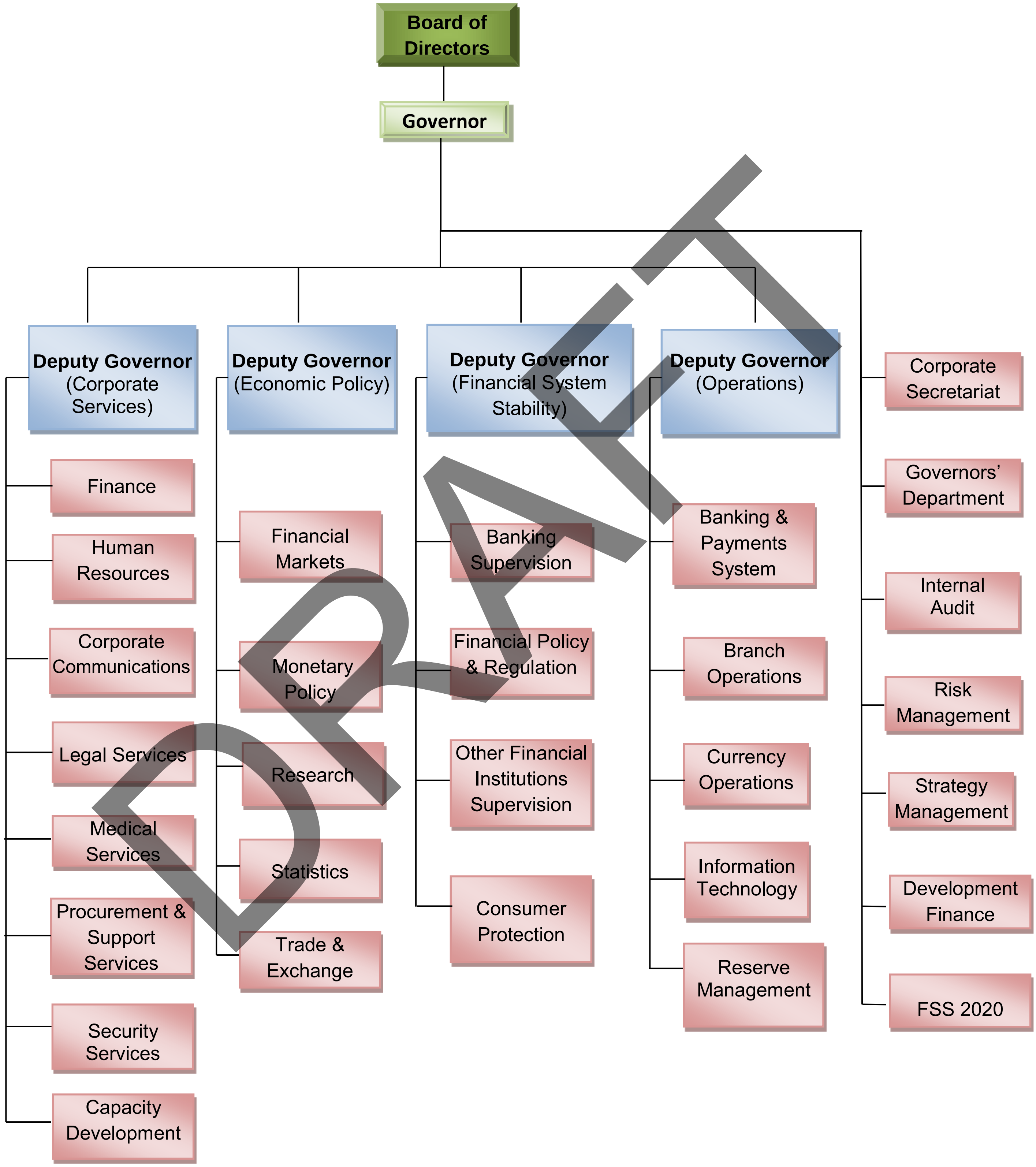
After the external shock induced slowdown, the Nigerian economy began to recover and exited recession during 2017. Having recorded a 1.6 per cent contraction in 2016, the economy expanded by 0.8 per cent in 2017. This rebound derives both from the favourable outcomes in international oil market and from improved non-oil performance following the various efforts at diversifying the economy. Similar improvements were displayed by domestic prices changes as headline inflation moderated from 18.6 per cent in December 2016 to 15.4 per cent in December 2017. In the financial markets, foreign exchange pressures which characterised the preceding year abated considerably during 2017 as the naira-dollar exchange rate appreciated, converged and stabilised across the various windows and segments of the market. External reserves also recovered remarkably during the year under review with a 45.8 per cent annual accretion to US$39.35 billion as at end-December 2017. The burgeoning investors' optimism and brightening business sentiments that resulted from the effective policies and the macroeconomic rebound also reflected in capital market gains. Consequently, the Nigeria All-Share Index (ASI) rallied by 42.3 per cent to 38,243.2 at end-December 2017 from 26,874.6 at end-December 2016.

These welcome outcomes and the economic rebound followed a number of countervailing monetary policy, exchange rate policy and development finance actions of CBN. Based on the understanding that the welfare gains of rapid disinflation outstripped the benefits of output stabilisation, the Bank's Monetary Policy Committee maintained a tight stance during the year in order to rein in inflation. This was supported with the continuous use of Open Market Operations. The Bank also adopted far-reaching strategies to stabilize the exchange rate and eliminate pressures from speculators, bettors, round-trippers and rent-seekers. During the year, special foreign exchange windows for small and medium enterprises and for Investors-Exporters were established to increase market transparency, stabilise the rates, improve investment sentiments in Nigeria and bolster foreign exchange supply. In addition to these, the CBN buoyed local production of goods in the real sector with sustained development financing. Accordingly, the Bank continued its programmes to increase access and flow of credit to the real sector, promote financial inclusion, support job creation and encourage entrepreneurship development.

To conclude this statement, I would like to express my profound gratitude to the Management and Staff of the Central Bank of Nigeria for their tireless support, commitment, diligence, innovativeness and loyalty through the outgoing year. They contributed in no small measure to the success recorded in 2017. I also wish to gratefully acknowledge the Presidency, the leadership of the National Assembly, Honourable Ministers of the Federal Republic, Nigeria's development partners, the organized private sector, as well as other stakeholders for their sustained support and cooperation during the year.

Godwin I. Emefiele, *CON*
Governor,
Central Bank of Nigeria
December 2018

Organisational Structure of the CBN as at 31st December, 2018



CENTRAL BANK OF NIGERIA
ANNUAL ECONOMIC REPORT
FOR THE YEAR ENDED DECEMBER 31, 2018
SUMMARY

The Annual Report reviews the operations and policies of the Central Bank of Nigeria (CBN) and the macroeconomic developments in 2018. The Bank continued to focus on achieving monetary and price stability, by ensuring optimal banking system liquidity that promote sustainable economic growth. A non-expansionary monetary policy stance of the Bank was maintained throughout the year, in response to prevailing global and domestic economic and financial conditions. Consequently, a cocktail of policy measures were implemented to attract foreign capital inflow, ensure relative stability in the foreign exchange market, increase credit to the real economy, promote efficient functioning of the financial market and stem inflationary pressures. Thus, headline inflation decelerated consistently throughout the review period, closing at 11.44 per cent, indicating 3.99 percentage points below the level in the preceding year, but was above the single digit benchmark. Aggregate output grew by 1.9 per cent, compared with 0.8 per cent in 2017. Also, the premium between the average interbank and BDC rates narrowed significantly to 18.1 per cent in 2018, compared with 29.3 per cent in 2017.

The *Report* is structured into two parts. Part 1 highlights the corporate activities and operations of the Bank, while Part II reviews the performance of the economy, against the backdrop of various policy measures taken to promote macroeconomic stability and growth.

CORPORATE ACTIVITIES

The Board of Directors and Other Committees

The Board of Directors of the CBN was reconstituted in 2018, following the appointment of two Deputy Governors, Lametek E. Adamu and Aishah N. Ahmad on March 23, 2018; and four Non-Executive Directors namely: Mike I. Obadan;

Justitia Nnabuko; Ummu A. Jalingo; and Adeola Adetunji on June 7, 2018, by the President. The Deputy Governor, Operations, Adebayo A. Adelabu voluntarily resigned from the services of the Bank on July 15, 2018, while Folashodun A. Shonubi was appointed on October 17, 2018.

The Board of Directors held two (2) regular meetings, while the Committee of Governors held thirty-six (36) meetings. The Finance and General Purpose, Corporate Strategy and Investment Committees held one (1) meeting each, while the Audit and Risk Management Committee and the Pension Fund Management Committee held two (2) meetings apiece.

The Monetary Policy Committee

The Monetary Policy Committee held five (5) regular meetings in April, May, July, September and November 2018. At these meetings, major developments in the global and domestic economic and financial environment were reviewed and appropriate monetary policy decisions taken and promptly communicated to the public.

Monetary Policy and Surveillance Activities

A non-expansionary monetary policy stance of the Bank was maintained in 2018, to rein-in inflation. The monetary policy rate was retained at 14.0 per cent, with asymmetric corridor of +200 and -500 basis points around the MPR, throughout 2018. Similarly, the cash reserve and liquidity ratios were retained at 22.5 and 30.0 per cent, respectively. Open market operations (OMO), remained the primary tool for liquidity management, complemented by reserve requirements, discount window operations and intervention in the foreign exchange market.

The stability in the foreign exchange market was sustained in 2018, on account of the improved foreign exchange liquidity and other management measures implemented by the Bank. Thus, the premium between the average interbank and BDC rates narrowed significantly to 18.1 per cent in 2018, compared with 29.3 per cent in 2017. Similarly, the premium between the BDC and I&E rates narrowed to 0.1 per cent in 2018, compared with 7.9 per cent in 2017.

The Bank, during the review period, introduced a broader measure of money supply (M_3) to account for the monetary liabilities of primary mortgage banks and microfinance banks, as well as, the holdings of CBN bills by non-bank public. Growth in the major monetary aggregates was moderate and generally lower than the indicative benchmarks for 2018, reflecting the non-expansionary monetary policy stance. Broad money supply, M_2 and M_3, grew by 12.1 and 16.6 per cent, respectively, at end-December 2018, compared with their respective levels of 2.3 and 0.6 per cent at end-December 2017. Narrow money supply (M_1), also increased by 5.2 per cent at end-December 2018. Aggregate bank credit to the domestic economy (net) grew by 6.3 per cent, in contrast to the indicative benchmark growth of 8.5 per cent for fiscal 2018. The development reflected, mainly, the 33.7 and 1.9 per cent, increase in net claims on the Federal Government and claims on the private sector, respectively. The net foreign assets of the banking system increased by 18.5 per cent, reflecting growth in foreign assets of the CBN. Interest rates were generally lower than their levels in the preceding year, reflecting excess liquidity in the market in 2018.

Indicators of financial sector development were mixed in 2018. Systemic relevance of the financial sector development, measured by the ratio of M_3 to GDP, was 26.2 per cent, compared with 25.3 per cent in 2016. Banking system's capacity to finance economic activities, measured by the ratio of aggregate credit to GDP, was 21.6 per cent, compared with 22.8 per cent in 2017. Also, credit to the core private sector, as a proportion of GDP fell to 17.8 per cent, from 19.6 per cent in 2017. Total money market assets outstanding fell by 1.9 per cent below the level at end-December 2017 due, largely, to the decline in Bankers' Acceptances and Nigeria Treasury Bills outstanding. Activities on the Nigerian Stock Exchange were bearish in 2018, as most market indices trended downward.

The structure of the Nigerian banking sector remained unchanged in the review period as the number of licensed banks at 27, same as in the preceding year. The licensed banks comprised, 21 commercial banks, five (5) merchant banks and one (1) non-interest bank. In the other financial institutions (OFIs) sub-sector, there were 5,488 licensed institutions at end-December 2018, compared with 4,870 institutions in 2017, comprising, seven (7) DFIs, 35 PMBs, 885 MFBs, 69 FCs and 4,492 BDCs.

The Bank continued its supervisory and surveillance activities in 2018, with a view to ensuring the safety and soundness of banking institutions, as well as, promoting public confidence in the Nigerian banking system. The Nigerian Banking Industry began the implementation of IFRS 9 in January 2018, in accordance with the final version of IFRS 9 standard on Financial Instruments by the International Accounting Standards Board (IASB). A joint CBN/NDIC IFRS 9 Implementation Project Team was constituted to pilot the implementation process. In addition, the electronic line card scheme, codenamed Credit Assessment Analysis System (CAAS) was fully deployed in 2018, as a technological approach in the evaluation of banks' credit and all examinations involving risk assets appraisal. In addition, the Bank continued to monitor the implementation of the Basel II/III standards to ensure regular update and improvement in its regulatory and supervisory framework.

In the other financial institutions sub-sector, on-boarding of microfinance banks (MFBs) on the National Association of Microfinance Banks Unified Information Technology (NAMBUIT) platform continued. At end-December 2018, NAMBUIT had been successfully deployed in 10 MFBs, comprising 1 National and 9 Unit MFBs. In addition, the CBN granted financial assistance to MFBs to procure Data Capturing Machines (DCM) for the BVN enrollment of their customers. At end-December 2018, 376 out of 879 MFBs had submitted their BVN enrolment to the CBN, totaling 1.5 million, representing 19.1 per cent of the 8.2 million active customers.

The CBN continued to monitor banks' compliance with the requirements of the Redesigned Credit Risk Management System (CRMS), which enables early identification of predatory borrowers and ensure transparency, credibility and efficient debt profiling of the banking industry. Also, a pilot run for on-boarding Non-Interest Banks (NIBs) to the CRMS was concluded during the review year. In addition, an interface was created for the NDIC to manage credit records in respect of loans of banks in liquidation. The new CRMS continued to serve as a platform for the management of credit information in the banking industry.

The CBN continued to follow-up with banks on the level of implementation of the recommendations of the money laundering and financing of terrorism (ML/FT) national risk assessment (NRA). Further to the circular issued to banks and OFIs, as well as, a cautionary notice to the public drawing their attention on money laundering and terrorism financing risks associated with virtual currency (VC), the CBN continued to monitor developments in the virtual currency space with a view to formulating substantive regulations to deal with the phenomenon. In addition, the Bank conducted AML/CFT compliance examination of banks to ascertain the level of compliance with the statutory thresholds for cash deposits of foreign and local currencies, as well as, treatment of suspicious transactions.

The Industry average capital adequacy ratio (CAR) of banks rose to 15.3 per cent at end-December 2018, compared with 10.2 and 8.0 per cent at end-December 2017 and the minimum capital requirement for international banks under the Basel Accord, respectively. Similarly, the Industry Non-Performing Loans (NPL) ratio, at 11.4 per cent, showed an improvement compared with 14.8 per cent recorded at end-December 2017. At this level, the industry NPL ratio, however, remained significantly above the maximum regulatory threshold of 5.0 per cent. Furthermore, the industry average liquidity ratio (LR), was 51.7 per cent at end-December 2018, compared with 45.6 per cent at end-December 2017, and was above the regulatory minimum of 30.0 per cent by 21.7 percentage points.

To consolidate the progress achieved in modernising the payments system, the Bank continued with the implementation of existing initiatives and introduced new ones, towards enhancing the credibility, reliability and efficiency of the payments system. Furthermore, the Bank sustained its developmental activities, in response to increasing demand for economic diversification and sustainable economic development; improve the flow of affordable credit to the real sector and stimulate growth. Thus, sustaining the implementation of existing initiatives such as: the Agricultural Credit Guarantee Scheme Fund (ACGSF); the Anchor Borrowers' Programme (ABP); the Commercial Agriculture Credit Scheme (CACS); the Micro, Small and Medium Enterprises Development Fund (MSMEDF); and the Power and Airline Intervention Fund (PAIF), among others. It also introduced new Rice Distributors Facility (RDF) under the Paddy Aggregation Scheme (PAS). The interventions were expected to create new jobs, facilitate micro, small and medium enterprise (MSME) development, and promote financial inclusion and inclusive growth.

Operations of the CBN

The Bank sustained quality information technology (IT) delivery in the areas of enterprise mobility management (EMM), IT support, cybersecurity, information and asset security, as well as, integration of core applications. The second phase of the e-Library Project, comprising the Institutional Repository and Discovery System was deployed during the review year leading to increased awareness and usage of library resources. Furthermore, the Bank ensure a high level of security to provide a safe and conducive working environment. During the period, the Bank commenced the deployment of a Security Command and Control Centre to provide centralised linkages of all vital security systems, equipment and communications. Also, the surveillance systems were enhanced in all branches of the Bank for improved monitoring of effective security practices, processes and equipment utilisation.

The CBN continued to strengthen the legal and regulatory framework for its oversight of the financial system in line with its mandate. Thus, relevant bills from the National Assembly were reviewed including: the Chartered Institute of Finance and Control in Nigeria Bill, 2018; Stamp Duties (Amendment) Bill, 2018; Review of the Proposed Microfinance Bill; and Data Protection, 2017, among others. The Bank was involved in 835 cases in 2018. A total of 144 cases were decided, of which 137 were either struck out, dismissed or discontinued by the plaintiffs, while three (3) were referred for settlement out of court. The Bank, however, complied with the Order of Court by paying judgment sums to creditors in the remaining four (4) cases.

In 2018, detailed audit was conducted, involving sixty (60), fifty (50) and eighty (80) audit of departments, processes and branches, respectively. Also, 236 currency disposal operations, requiring audit witnesses, were completed. In addition, risk management effort focused primarily on the implementation of the approved enterprise risk mechanism (ERM) framework and risk management policies. Consequently, thirty-five (35) Risk Control Self Assessments (RCSA) and Independent Risk Assessments (IRA) workshops for selected Business Units (BUs) in line with the requirements of the Bank's ERM Frameworks were conducted. Furthermore, as part of its strategic initiatives and business process management, the annual budgeting and funnelling processes were completed. These involved the rationalisation and prioritisation of all existing and proposed strategic initiatives of the Bank.

ECONOMIC REPORT

The Global Economy

Global economic growth moderated to 3.7 per cent, from 3.8 per cent in 2017, due to trade policy uncertainty occasioned by trade tension between the US and China, intensified BREXIT uncertainty and pockets of geopolitical tensions. Growth in the advanced economies fell slightly to 2.3 per cent, from 2.4 per cent in 2017. Similarly, growth in the emerging markets and developing economies decelerated to 4.6 per cent in 2018, from 4.7 per cent in 2017, as a result of higher energy prices and slow export growth in the euro area. In sub-Saharan Africa, growth remained strong at 2.9 per cent in 2018, same as in 2017, due to higher oil prices and loose global financial condition.

Global output moderated to 3.7 per cent in 2018, due to sluggish growth in advanced economies and the emerging economies.

Global inflation rose in 2018, owing to recovery in oil prices. Other commodity prices, however, generally soften in 2018, relative to 2017, on account of weak global economic activities. This development was due to dampening effect of trade tension between the US and China. Headline inflation, however, increased moderately in advance economies, although still below target.

The 2018 Spring and Annual Meetings of the Bretton Woods Institutions (BWIs) were held in Washington D. C., USA from April 16 to 22, 2018 and October 8 to 14, 2018, respectively. The Meetings urged the IMF and WBG to strengthen their support for domestic resources mobilisation, combat illicit financial flows and mitigate the adverse social and distributional impact of fiscal adjustment. In addition, the G-24 Ministers noted that digitalisation and technological changes would further create opportunities, but also challenges; and called on IMF, other IFIs and financial standard-setters to assess the implications of technological advances on the financial system. Also, the African Caucus Meeting of the IMF/World Bank appreciated the commitment of IFC to increase investment by 40.0 per cent in LICs and urged them to materialise this commitment in Africa, especially through SME financing. Within the sub-Region, the 36th Meeting of the WAMZ Committee of Governors urged the West African Securities Regulation Association (WASRA) to approve phases I and II of the integration of the capital markets in ECOWAS.

The Domestic Economy

Fiscal Operations of Government

Nigeria's fiscal policy in 2018, was aimed at consolidating on the achievement of the reflationary policies of the Government in the past two years. Total federally-collected revenue (gross) was ₦9,551.6 billion (7.3% of GDP) in 2018, indicating a rise of 28.3 per cent, above the receipt in fiscal 2017. The development reflected improvement in both oil and non-oil revenue sources. Overall, oil revenue (gross) was ₦5,545.6 billion or 58.1 per cent of the total (4.3% of GDP), while non-oil revenue (gross), at ₦4,006.0 billion, accounted for 41.9 per cent of total revenue (3.0% of GDP).

The consolidated revenue and expenditure of the General Government was ₦9,573.6 billion (7.5% of GDP) and ₦13,967.0 billion (3.4% of GDP), respectively, resulting in an overall deficit of ₦4,393.3 billion (3.4% of GDP).

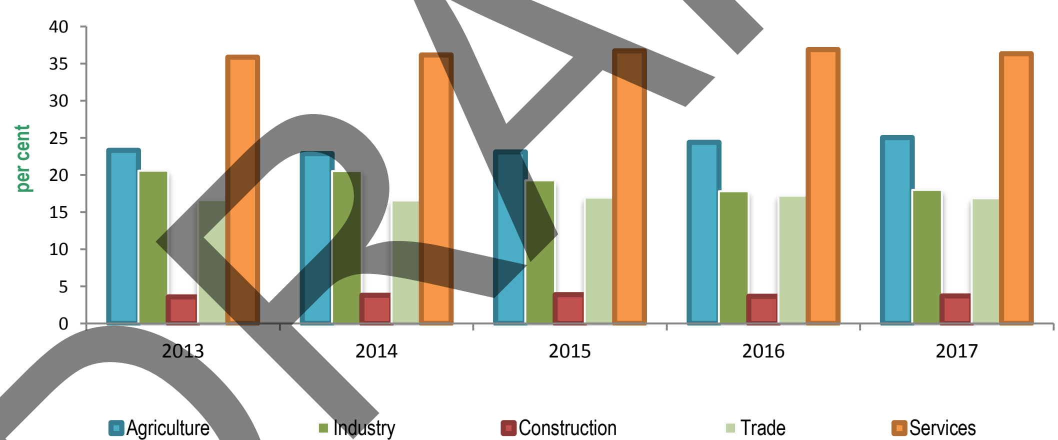
Federal Government retained revenue and aggregate expenditure were ₦4,185.6 billion and ₦7,813.7 billion, respectively, resulting in an overall deficit of ₦3,628.1 billion, or 2.8 per cent of GDP, compared with ₦3,609.4 billion, or 3.2 per cent of GDP in 2017. The deficit was within the revised WAMZ primary convergence criterion and Fiscal Responsibility Act, 2007 of 3.0 per cent of GDP. The deficit was financed by 29.6 per cent from external sources and 70.4 per cent from domestic sources.

The consolidated Federal Government debt stock, at end-September 2018 was ₦18,901.4 billion, or 15.2 per cent of GDP, compared with ₦18,377.0 billion or 16.2 per cent of GDP in 2017. Increase in debt stock was as a result of additional disbursement on commercial loans (Euro and Diaspora). Domestic debt constituted 65.0 per cent, while external debt accounted for the balance.

The Real Sector

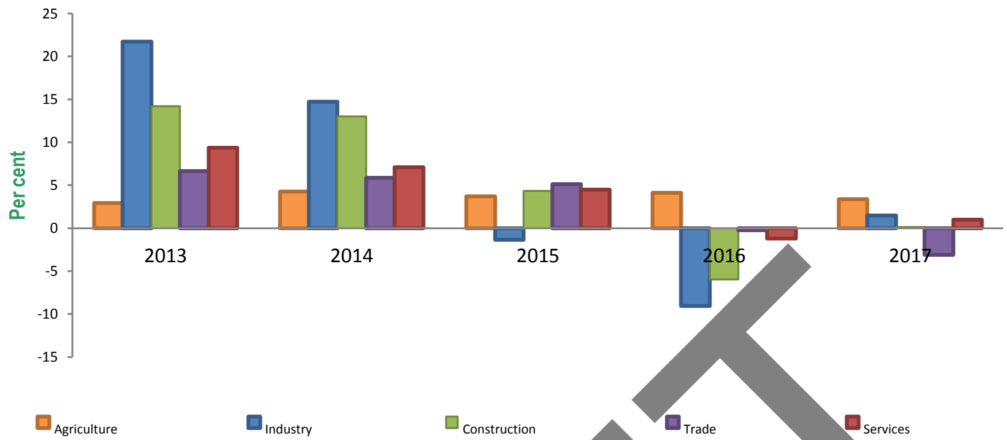
Gross domestic product (GDP), measured at 2010 constant basic prices, grew by 1.9 per cent in 2018, compared with 0.8 per cent in 2017. The non-oil sectors drive the growth with 2.0 per cent increase, while oil sector output grew by 1.1. The services, agricultural, industrial and construction sectors contributed 1.1, 0.5, 0.3 and 0.1 per cent, respectively, to GDP growth, while the trade sector contributed negative growth of 0.1 per cent. The growth in output was attributed to: higher crude oil prices; fiscal stimulus which led to increased infrastructural spending following sustained implementation of the Economic Recovery and Growth Plan; sustained implementation of the Anchor Borrowers' Programme; increased capital inflow into the country, arising from improved investors' confidence, enhanced access to foreign exchange and lower inflationary pressure.

Sectoral Shares in GDP, 2013 - 2017



Source: NBS

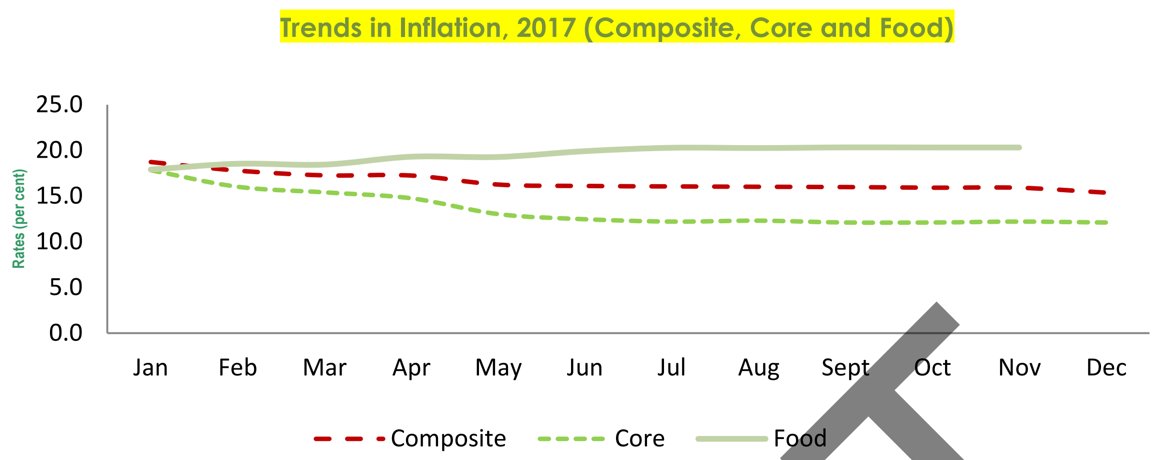
Growth Rate of Major Sectors of Non-oil GDP, 2013 – 2017 (Per cent)



Source: NBS

Average spot price of Nigeria's reference crude, the Bonny Light (37^{0}API), was US$72.53 per barrel in 2018, compared with US$54.90 per barrel in 2017, an increase of 32.1 per cent. Similarly, average price of the OPEC basket of 15 crude streams rose by 32.8 per cent to US$69.61 per barrel in 2018. The increase in oil price during the year was influenced by tension in the Korean peninsula; U.S. withdrawal from the Iran deal; and agreement by OPEC and its Russia-led allies to cut in oil production by 1.2 million barrels per day.

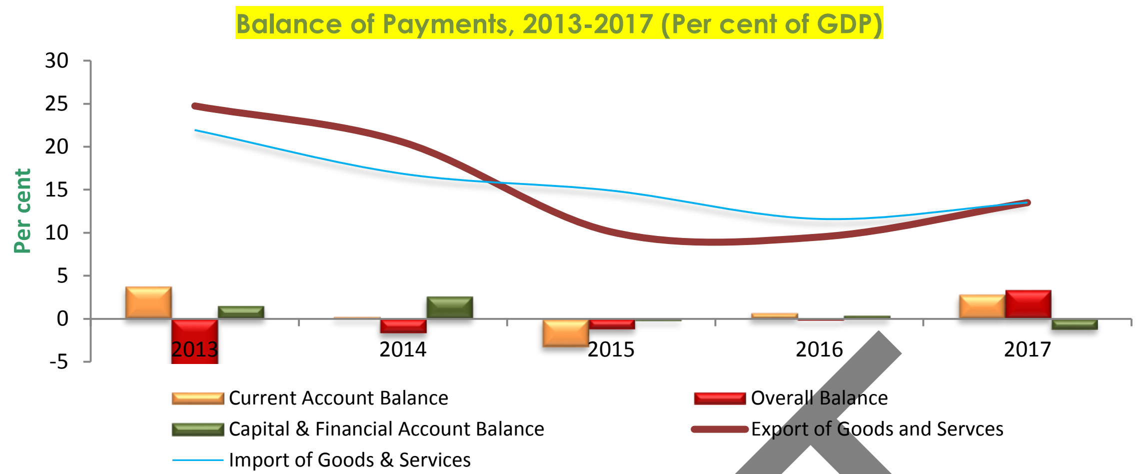
Headline inflation (year-on-year) decelerated consistently from 15.13 per cent, at end-January 2018, to 11.44 per cent, at end-December 2018. Similarly, the 12-month moving average headline inflation was 12.10 per cent, at end-December 2018, compared with 16.50 per cent at end-December 2017.



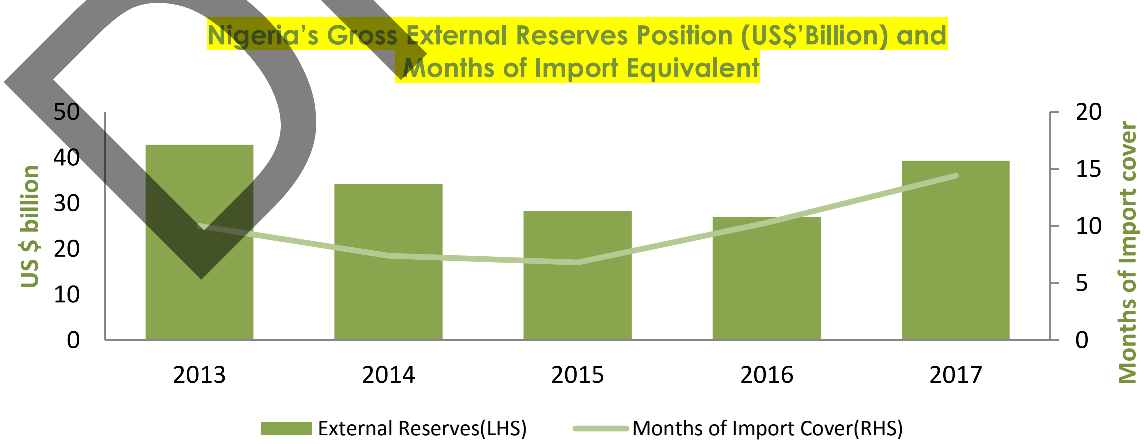
Source: NBS

The External Sector

The performance of the external sector moderated in 2018. The balance of payments showed a surplus of ₦990.49 billion (0.8% of GDP), compared with ₦3,737.37 billion (3.3% of GDP) in 2017. The positive trend reflected favourable crude oil price and relative stability in foreign exchange market. The current account, also maintained a surplus of 2.3 per cent of GDP, though, lower than 2.8 per cent of GDP in 2017. This was as a result of high import bills and widened deficits in both the services and income account. The capital and financial account recorded a net financial liability of 3.3 per cent of GDP, as against, a net financial asset of 1.2 per cent of GDP in 2017, attributed, largely, to higher inflow of other investment and foreign portfolio liabilities.



The stock of external reserves, at end-December 2018, stood at US$42.59 billion and could finance 13.0 months of import of goods only or 7.5 months of import of goods and services. This exceeded both the international benchmark and the West African Monetary Zone (WAMZ) convergence criterion of 3 months import cover. The stock of external debt at end-December 2018 was US$21.59 billion or 5.3 per cent of GDP and remained within the threshold of 40.0 per cent of GDP. The international investment position (IIP) recorded a higher net liability of US$71.02 billion, indicating an increase of 22.9 per cent over the US$57.80 billion in the preceding period.



The foreign exchange market witnessed stability in 2018, despite increased demand pressure experienced in the second half of the year. The continued intervention in the foreign exchange market and various measures implemented by the Bank were responsible for the stability. The exchange rate of the naira to the US dollar at the inter-bank segment depreciated to ₦306.08/US$, compared with ₦305.79/US$ in 2017.

The annual average exchange rate at the BDC segment appreciated by 9.4 per cent to ₦361.51/US$ in 2018, as against ₦395.42/US in 2017. The end period exchange rate also appreciated to ₦361.00/US$ in the review year, indicating an appreciation of 0.6 per cent, relative to ₦363.00/US$ in 2017. The annual average exchange rate at the I&E window was ₦361.96/US, while the end-period exchange rate stood at ₦364.00/US$.

Figure 7.14: End-period Exchange Rate of the Naira per US Dollar, 2013 - 2017

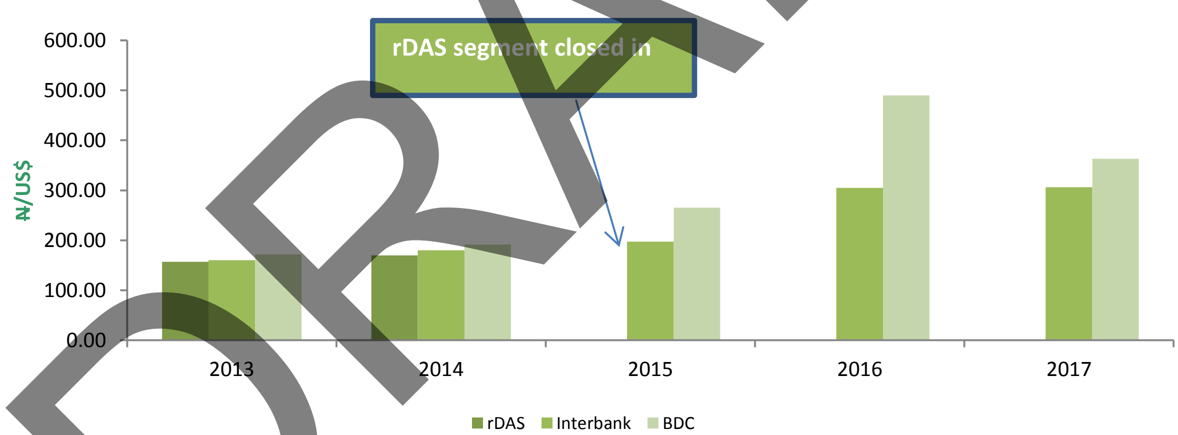
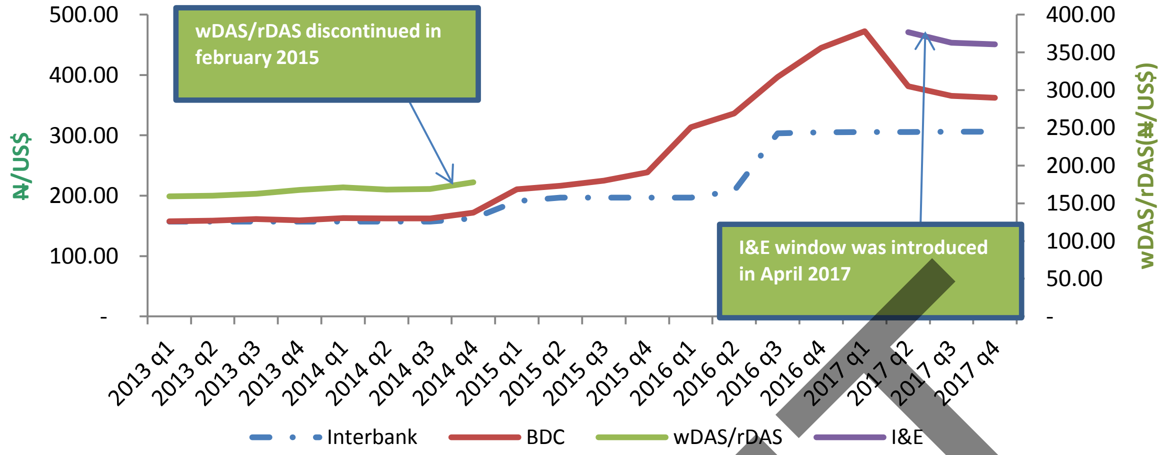


Figure 7.15: Quarterly Average Exchange Rate of the Naira vis-à-vis US Dollar, 2013 - 2017



Selected Macroeconomic and Social Indicators
Selected Macroeconomic and Social Indicators

Indicator	2013	2014	2015	2016	2017 /2
Domestic Output and Prices					
GDP at Current Mkt Prices (₦ billion)	81,010.0	90,137.0	95,177.7	102,575.4	114,906.7
GDP at Current Mkt Prices (US$ billion)	515.0	568.5	492.5	404.6	375.8
GDP per Capita (₦)	461,884.4	498,516.4	510,557.5	533,739.6	579,982.4
GDP per Capita (US$)	2,936.1	3,144.2	2,641.9	2,105.5	1,896.7
Real GDP Growth (%)	5.5	6.2	2.8	(1.6)	0.8
Oil Sector	(13.1)	(1.3)	(5.4)	(14.4)	4.8
Non-oil Sector	8.4	7.2	3.7	(0.2)	0.5
Sectoral GDP Growth (%)					
Agriculture	2.9	4.3	3.5	4.1	3.4
Industry	(0.1)	6.0	(3.8)	(9.4)	2.1
Construction	14.2	13.0	(0.4)	(5.9)	1.0
Trade	6.6	5.9	4.7	(0.2)	(1.1)
Services	9.4	7.1	3.3	(1.2)	(0.7)
Oil Production (mbd)	1.9	1.9	2.1	1.6	1.9
Manufacturing Capacity Utilisation (%)	58.3	59.8	59.9		
GDP Deflator Growth (%) 3/	5.9	4.7	2.9	9.5	11.1
Inflation Rate (%) (Dec-over-Dec)	8.0	8.0	9.6	18.5	15.4
Inflation Rate (%) (12-month moving average)	8.5	8.0	9.0	15.7	16.5
Core Inflation Rate (%) (Dec-over-Dec) 4/	7.9	6.2	8.7	18.1	12.1
Core Inflation Rate (%) (12-month moving average) 4/	7.7	6.9	8.2	15.3	13.5
Food Inflation Rate (%) (Dec-over-Dec)	9.3	9.2	10.6	17.4	19.4
Food Inflation Rate (%) (12-month moving average)	9.7	9.5	9.9	14.9	19.5
Aggregate Demand and Savings (% of GDP) 5/					
Aggregate Demand	94.2	93.3	99.3	101.6	98.8
Private Final Consumption Expenditure	72.9	71.7	78.6	81.6	81.8
Government Final Consumption Expenditure	7.2	6.5	5.9	5.4	5.0
Gross Fixed Capital Formation	14.2	15.1	14.8	14.7	12.1
Increase in Stock	0.7	0.7	0.7	0.6	0.6
Net Export of Goods and Non-factor Services	5.1	6.0	(0.0)	(2.3)	0.6
Export of Goods and Non-factor Services	18.0	18.4	10.7	9.2	11.1
Import of Goods and Non-factor Services	13.0	12.5	10.7	11.5	10.4
Domestic Saving	20.0	21.8	15.5	13.1	13.2
Gross National Saving	14.0	16.8	11.5	10.5	9.5
Public Finance (% of GDP)					
General Government					
Revenue	11.9	9.9	7.9	6.5	7.7
Expenditure	13.6	11.3	10.2	9.4	10.3
Transfers	1.2	0.9	0.8	0.7	1.1
Current Balance	4.0	2.7	0.8	(0.2)	0.5
Primary Balance	(0.7)	(0.2)	(1.1)	(1.5)	(0.9)
Overall Balance	(1.7)	(1.4)	(2.3)	(2.9)	(2.7)
Federal Government					
Retained Revenue	5.0	4.2	3.6	3.1	4.0
Total Expenditure	6.4	5.1	5.2	5.2	5.9
Recurrent Expenditure	4.6	3.8	4.0	4.1	4.5
Of which: Interest Payments	1.0	1.0	1.1	1.4	1.7
Foreign	0.1	0.1	0.1	0.1	0.0
Domestic	1.0	1.0	1.0	1.3	1.7
Capital Expenditure and Net Lending	1.4	0.9	0.9	0.7	1.0
Transfers	0.5	0.4	0.4	0.5	0.4
Current Balance (Deficit(-)/Surplus(+))	0.4	0.4	(0.4)	(1.0)	(0.6)
Primary Balance (Deficit(-)/Surplus(+))	(0.4)	0.1	(0.5)	(0.7)	(0.3)
Overall Fiscal Balance (Deficit(-)/Surplus(+))	(1.4)	(0.9)	(1.6)	(2.1)	(2.0)
Financing	1.4	0.9	1.6	2.1	2.0
Foreign	0.0	0.0	0.0	0.0	0.6
Domestic	1.4	0.9	1.6	2.1	1.4

Selected Macroeconomic and Social Indicators cont.

Indicator	2013	2014	2015	2016	2017 /2
Banking System	0.6	0.5	0.9	0.3	0.0
Non-bank Public	0.3	0.2	0.1	0.2	1.0
Other Funds	0.5	0.2	0.6	1.6	0.3
Federal Government Debt Stock 6/	10.5	10.6	11.5	14.2	16.0
External	1.7	1.8	2.2	3.4	5.0
Domestic	8.8	8.8	9.3	10.8	11.0
Money and Credit (Growth Rate %)					
Reserve Money	37.4	16.5	(2.0)	0.6	10.8
Narrow Money (M_1)	(5.2)	(11.1)	24.1	31.5	(2.1)
Broad Money (M_2)	1.3	7.2	5.9	17.8	1.7
Net Foreign Assets	(4.3)	(16.7)	(18.7)	61.8	61.9
Net Domestic Assets	9.2	36.6	20.2	0.5	(36.4)
Net Domestic Credit	14.5	13.7	12.1	24.3	(3.7)
Net Credit to Government	32.5	1.9	152.0	68.6	(26.7)
Credit to Private Sector	6.9	12.1	3.3	17.4	1.4
Money Multiplier for M_2	3.1	2.8	3.4	4.0	3.7
Income Velocity of M_2	5.2	5.4	4.8	4.3	4.8
Financial Development Indicators (%)	5.2	5.4	4.8	4.3	4.8
M_2/GDP	19.4	18.7	21.0	23.0	20.9
CIC/M_2	11.3	10.7	9.3	9.2	9.0
COB/M_2	9.2	8.1	7.3	7.7	7.4
QM/M_2	55.2	62.8	57.2	52.2	54.0
CIC/GDP	2.2	2.0	2.0	2.1	1.9
Credit to Private Sector (CP)/GDP	20.0	20.1	19.7	21.4	19.4
Credit to Core Private Sector (CCP)/GDP	19.0	19.3	19.0	20.4	18.1
CP/Non-Oil GDP	23.2	22.9	21.2	22.9	21.6
DMBs Assets/GDP	30.2	30.6	29.8	31.3	30.6
CBN's Assets/GDP	18.6	16.2	17.3	24.1	28.4
Banking System's Assets/GDP	48.8	46.8	47.1	55.4	59.0
Interest Rates (% per annum)					
Monetary Policy Rate (MPR) (end period) 7/	12.0	13.0	11.0	14.0	14.0
Repurchase Rate (Average)	15.0	-	16.1	18.5	19.0
Treasury Bill Rate (Average)					
91-day	10.9	10.5	9.4	10.1	13.5
182-day	11.6	11.4	12.2	12.7	16.9
364-day	11.9	11.7	12.9	14.1	18.0
Inter-bank Call Rate (end-period)	11.5	12.9	0.8	10.4	9.0
Deposit Rates (end-period)					
Savings Rate	2.5	3.5	3.3	4.2	4.1
3-months Fixed	8.0	9.5	6.9	8.8	9.6
6-months Fixed	7.4	9.8	5.8	10.2	11.1
12-months Fixed	5.0	9.5	4.9	10.8	10.9
Prime Lending Rate (end period)	17.0	15.9	17.0	17.1	17.7
Maximum Lending Rate (end period)	24.9	25.9	26.8	28.5	31.0
Government Bond (Average coupon)					
3-year	13.0	12.5	-	0.0	0.0
5-year	11.8	-	14.2	13.9	15.8
7-year	11.2	-	-	0.0	0.0
10-year	11.2	13.1	13.8	14.3	15.9
20-year	13.0	13.2	15.3	14.8	16.4

Selected Macroeconomic and Social Indicators cont.

Indicator	2013	2014	2015	2016	2017 /2
External Sector					
Current Account Balance (% of GDP)	3.7	0.2	(3.2)	0.7	2.8
Goods Account	8.2	3.7	(1.3)	(0.1)	3.5
Services Account (net)	(3.8)	(4.0)	(3.4)	(2.0)	(3.5)
Income Account (net)	(5.0)	(3.3)	(2.6)	(2.1)	(3.1)
Current Transfers	4.2	3.8	4.2	4.9	5.8
Capital and Financial Account Balance (% of GDP)	1.5	2.1	(0.2)	0.7	(1.1)
Overall Balance (% of GDP)	(0.2)	(1.5)	(1.2)	(0.2)	3.3
External Reserves (US$ million)	42,847.3	34,241.5	28,284.8	26,990.6	39,353.5
Number of Months of Import Equivalent	9.3	6.7	6.5	9.2	14.4
Average Crude Oil Price (US$/barrel)	111.4	100.7	53.1	48.8	54.5
Average Official Rate (₦/US$)	157.31	158.55	193.25	253.49	305.79
End of Period Official Rate (₦/US$)	157.26	169.68	197.00	305.00	306.00
Average Bureau de Change Exchange Rate (₦/US$)	162.45	171.45	222.79	372.86	395.70
End of Period Bureau de Change Exchange Rate (₦/US$)	172.00	191.50	267.00	490.00	363.00
Capital Market					
All Share Value Index (1984=100)	41,329.2	34,696.7	28,679.1	26,914.6	38,243.2
Value of Stocks Traded (Billion Naira)	2,350.9	1,334.8	961.2	578.5	1,078.2
Value of Stocks/GDP (%)	2.9	1.5	1.0	0.6	0.9
Market Capitalization (Billion Naira)	19,077.4	16,875.1	17,003.4	16,185.7	22,917.9
Of which: Banking Sector (Billion Naira)	2,940.0	2,367.0	1,447.6	1,456.9	2,501.8
Market Capitalization/GDP (%)	23.5	18.7	17.9	15.8	19.9
Of which: Banking Sector/GDP (%)	3.6	2.6	1.5	1.4	2.2
Insurance Sector/GDP (%)	0.2	0.2	0.2	0.1	0.1
Banking Sector Cap./Market Capitalization (%)	15.4	14.0	8.5	9.0	10.9
Insurance Sector Cap./Market Capitalization (%)	0.9	0.9	0.9	0.8	0.6
Social Indicators					
Population (million)	175.4	180.8	186.4	192.2	198.1
Population Growth Rate (%)	3.1	3.1	3.1	3.1	3.1
Unemployment Rate (%)	10.0	6.4	10.4	14.2	18.8
Life Expectancy at Birth (Years)	52.1	52.5	53.0	53.4	
Adult Literacy Rate (%)					
Incidence of Poverty					

1/ Revised
2/ Provisional
3/ Based on GDP measured at basic prices.
4/ Core Inflation is measured as the rate of change of all-item Consumer Price Index (CPI) less farm produce.
5/ Computations are based on GDP at Current Market Prices.
6/ Includes State Government Debts
7/ MPR replaced MRR with effect from December 11, 2006.

M_1 = Narrow Money; M_2 = Broad Money; GDP = Gross Domestic Product; CIC = Currency in Circulation
COB = Currency Outside Bank; QM = Quasi-Money; CP = Credit to Private Sector, CCP = Credit to Core Private Sector

Sources: Central Bank of Nigeria (CBN), Federal Ministry of Finance (FMF), National Bureau of Statistics (NBS), National Population Commission (NPOPC) Nigeria National Petroleum Corporation (NNPC), Nigerian Stock Exchange (NSE)

CHAPTER ONE
CORPORATE ACTIVITIES OF THE CENTRAL BANK OF NIGERIA

The coordination, monitoring and reporting of the Bank strategic projects and initiatives continued during the review period. These activities provided the required information to make informed decisions on initiatives that were being implemented. The CBN sustained effort at providing a conducive environment for staff and customers, as well as, public sector interventions in the review year. Thus, the following projects were completed: CBN Branch renovation (1 location); Banknotes Disposal System (BDS) ventilation improvement in CBN Branches (23 locations); Diagnostic and Treatment Centres (1 location); and intervention in secondary schools (3 locations).

The Bank sustained quality information technology (IT) delivery in the areas of enterprise mobility management (EMM), IT support, cybersecurity, information and asset security as well as integration of core applications. ***It continued its Corporate Social Responsibility (CSR) by encouraging knowledge acquisition, through capacity building, youth, sports and women developments, provision of financial and other forms of assistance to institutions and organisations for the hosting of conferences, seminars and workshops. The Bank also provided financial support towards the implementation of 67 CSR projects, spread across the six geo-political zones, valued at N291.5 million, compared with 271 projects valued at N269.5 million, in 2015.*** *The staff of the Bank sustained their support for the less-privileged, physically-challenged groups and gender-related issues/initiatives in the society through regular contributions to the CBN Staff Alms Fund (C-SAF).*

1.1 ADMINISTRATION

1.1.1 The Board of Directors and Other Committees

The Board of Directors of the Central Bank of Nigeria (CBN) was reconstituted in 2018, with the appointment by the President following the confirmation of the Senate, of two Deputy Governors, Lametek E. Adamu and Aishah N. Ahmad on March 23, 2018; and four Non-Executive Directors namely: Mike I. Obadan; Justitia Nnabuko; Ummu A. Jalingo; and Adeola Adetunji on June 7, 2018. Adebayo A. Adelabu, Deputy Governor, Operations resigned voluntarily from the services of the Bank on July 15, 2018 and Folashodun A. Shonubi was appointed on October 17, 2018.

The Board of Directors held two (2) regular meetings, while the Committee of Governors held thirty-six (36) Meetings. The Finance and General Purpose, Corporate Strategy and Investment Committees held one (1) meeting each, Audit and Risk Management, as well as, Pension Fund Management Committees held two (2) meetings each in the review period.

Table 1.1: Committee of Governors (CoG) Meetings: Attendance in 2018		
S/N	**Member**	**Number of Meetings Attended**
1	Godwin I. Emefiele	34 out of 36
2	Edward L. Adamu	25 out of 36
3	Okwu J. Nnanna	32 out of 36
4	Aishah N. Ahmad	24 out of 36
5	Adebayo A. Adelabu*	13 out of 36

*Voluntarily resigned on July 15, 2018
**Appointed on October 17, 2018
Source: CBN

1.1.2 The Monetary Policy Committee (MPC)

The Monetary Policy Committee held five (5) regular meetings in April, May, July, September and November 2018. At these meetings, major developments in the global and domestic economic and financial environment were reviewed and appropriate monetary policy decisions taken and promptly communicated to the public.

Table 1.2: Monetary Policy Committee (MPC) Meetings: Attendance in 2018		
S/N	**Name**	**Number of Meetings Attended**
1.	Godwin I. Emefiele	5 out of 5
2.	Edward L. Adamu	5 out of 5
3.	Okwu J. Nnanna	5 out of 5
4.	Aishah N. Ahmad	5 out of 5
5.	Adebayo A. Adelabu*	2 out of 5
6	Folashodun A. Shonubi**	1 out of 5
7.	Dahiru Balami	5 out of 5
8.	Robert Asogwa	5 out of 5
9.	Adeola Adenikinju	5 out of 5
10.	Aliyu R. Sanusi	5 out of 5
11.	Mike I. Obadan ***	3 out of 5
12.	Mahmoud Isa-Dutse***	2 out of 5

* Adebayo A. Adelabu voluntarily resigned as Deputy Governor (Operations) on July 15, 2018.
** Folashodun A. Shonubi was appointed Deputy Governor on October 17, 2018.
*** Mike I. Obadan was appointed Non-Executive Board Member on July 15, 2018.
***Mahmoud Isa-Dutse was appointed Non-Executive Board Member on July 15, 2018.
Source: CBN

Table 1.3: MPC Decisions in 2017		
Date	**MPR (%)**	**Decisions**
April 03 – 04, 2018 Communiqué No. 117	14.00	• Retained the MPR at 14.0 per cent; • Retained the CRR at 22.5 per cent; • Retained the Liquidity Ratio at 30.0 per cent; and • Retained the Asymmetric corridor at +200 and -500 basis points around the MPR.
May 21 – 22, 2018 Communiqué No. 118	14.00	• Retained the MPR at 14.0 per cent; • Retained the CRR at 22.5 per cent; • Retained the Liquidity Ratio at 30.0 per cent; and • Retained the Asymmetric corridor at +200 and -500 basis points around the MPR.
July 23 - 24, 2018 Communiqué No. 119	14.00	• Retained the MPR at 14.0 per cent; • Retained the CRR at 22.5 per cent; • Retained the Liquidity Ratio at 30.0 per cent; and • Retained the Asymmetric corridor at +200 and -500 basis points around the MPR.
September 24-26, 2018 Communiqué No. 120	14.00	• Retained the MPR at 14.0 per cent; • Retained the CRR at 22.5 per cent; • Retained the Liquidity Ratio at 30.0 per cent; and • Retained the Asymmetric corridor at +200 and -500 basis points around the MPR.
November 21–22, 2018 Communiqué No. 121	14.00	• Retained the MPR at 14.0 per cent; • Retained the CRR at 22.5 per cent; • Retained the Liquidity Ratio at 30.0 per cent; and • Retained the Asymmetric corridor at +200 and -500 basis points around the MPR.

***As at January 2018, the MPC had not been reconstituted**

Source: CBN

1.1.3 Development of CBN Branches and Intervention Projects

The Bank sustained its effort at providing a conducive environment for staff and customers, as well as, public sector interventions in the review year. Thus, the following projects were completed: CBN Branch renovation (1 location); banknotes disposal system (BDS) ventilation improvement in CBN Branches (23 locations); diagnostic and treatment centre (1 location); and intervention in secondary schools (3 locations). Also, forty-eight (48) building projects were on-going at end-December 2018. These were: CBN new Branch/Property, including Clinics development (12); CBN Branch renovation/remodeling (10); BDS ventilation improvement (4); replacement of vault doors in CBN Kano (1); secondary school interventions (1); tertiary institutions interventions (7); and other public sector projects (13).

1.1.4 Information Technology

The Bank sustained quality information technology (IT) delivery in the areas of enterprise mobility management (EMM), IT support, cybersecurity, information and asset security as well as integration of core applications. In the review year, there was improvement in customer satisfaction, as staff on the average, were relatively satisfied across Strategic Business Units (SBUs), with the quality of IT support as stakeholders satisfaction rating on: service availability, speed of IT platforms and quality of support were rated 90.0 per cent, 88.0 per cent and 78.0 per cent, respectively compared with 73.0 per cent apiece, and 76.0 per cent in 2017.

In the review period, a maturity assessment using Gartner ITscore was 2.9 out of 5.0. The result was above the financial industry (FI) average of 2.7. The assessment evaluates the maturity of both the IT organisation as an enabler of IT services and the enterprise as a consumer of IT.

As part of effort to reduce operating cost, the Bank adopted a break and fix technique of work tool. Thus, 66.0 per cent of the budgeted amount for maintenance was saved.

During the year under review, the CBN held its 1st Cybersecurity conference on August 2, 2018, at the International Training Institute (ITI), Abuja. The theme was "Building Cyber Resilience: the JP Morgan Experience". The Conference had over 350 attendees from financial institutions, MDAs and other private sector organisations. Furthermore, to safeguard the CBN from cyber-attack threats that could likely cause disruptions to financial services capabilities, particularly payments systems, cybersecurity awareness training programmes were organised for over 5,000 staff in the year under review. The effort increased the awareness rate by 72.0 per cent. The Bank also put in place technologies that blocked spam mails before they found their ways into its network.

In order to further strengthen endpoint protection, the CBN deployed the Cylance Protect Software. It is an end-point security solution which detects, prevents and blocks threats. It works principally using Artificial Intelligence. It can predict and prevent execution of advanced threats and malware at end-points. Also, to ensure better security for the payments system, the Bank implemented measures to ensure that its applications are well secured and protected from infiltration by hackers. Thus, it achieved full compliance on the mandatory controls as requested by Society for Worldwide Interbank Financial Telecommunication (SWIFT) for all users worldwide. Some of the measures undertaken among others were:

- Migration of all SWIFT users to two-factor (2FA) authentication;
- Enabling the monitoring of security events on swift alliance application;
- Daily Validation Report on swift application;
- Provision of separate work tools for swift users;
- Creation of the secure zone for swift network; and
- Integration of the T24 to 2FA

In an effort to control and manage the use of smartphones and tablet devices by staff to access enterprise information, the CBN deployed Enterprise Mobile Management (EMM) solution using IBM MaaS360. The solution helps to manage the risk of data leakage from mobile devices getting to unauthorised persons in case of theft, loss or misplacement. A total of 6,576 devices which cut across Android, iOS and Windows platforms had been registered.

The British Standards Institute (BSI) Surveillance Audit was conducted from May 14 – 23, 2018 and the CBN was recertified for the 6th time. Following some observations of non-conformities by the BSI, the Bank took measures to address issues relating to the non-disclosure agreement.

1.1.5 Library Operations

The number of library resources consulted by staff in 2018 was 49,248 representing an increase of 68.0 per cent above 29,272 recorded in 2017. This was attributed to increased awareness and the successful implementation of the second phase of the e-Library, comprising the Institutional Repository and the Discovery system. The volume of books in the Bank's library system rose by 1.2 per cent to 114,216 in 2018 above112,872 in 2017.

The Bank provided access to the electronic books and journals covering economics, finance, business and banking from the following platforms: Springer; and Elsevier ScienceDirect. Other e-book sources included: the IMF e-Library and the World Bank Open Knowledge Repository (OKR); Databases included: EBSCOHost; Journal Storage (JStor); Access to Global Online Research in Agriculture (AGORA); and Online Access to Research in Environment (OARE). The data and statistical sources accessed by the Library were: FitchConnect (former Business Monitor International (BMI)); the International Monetary Fund (IMF) Data; World Bank Open Data; and the Economist Intelligence Unit (EIU).

Furthermore, the Library Committee organised a Library week with the theme "Promoting Information Access and Visibility: the Role of the CBN Library" which was held in the Corporate Head Office, Abuja from May 30 - 31, 2018. The aim was to acquaint staff with the information resources available in the Library and increase staff access. Approval for the implementation of an online platform for improving the visibility of CBN publications was granted during the year under review.

1.1.6 Legal Services

The Bank continued to strengthen the legal and regulatory framework to improve the overall effectiveness of the financial system in line with its mandate. In the review period, relevant bills from the National Assembly were reviewed including: the Chartered Institute of Finance and Control in Nigeria Bill, 2018; Stamp Duties(Amendment) Bill, 2018; Review of the Proposed Microfinance Bill; and Data Protection Bill 2017, among others.

The CBN was involved in 835 cases, out of which four (4) were foreign. One (1) of the foreign cases was determined in favour of the Bank. Of the 831 local cases, 510 were garnishee proceedings. The other cases bordered on a wide range of issues arising from disputes on the exercise of regulatory powers of the Bank, breach of contract, alleged wrongful termination of contracts, banking/financial operations, revocation of banking licence and matters involving the Bank's landed properties.

In the review period, 144 cases were decided, of which 137 were either struck out, dismissed or discontinued by the plaintiffs, while three (3) were referred for settlement out of court. Also, in the remaining four (4) cases, the Bank complied with the Order of Court by paying judgment sums to creditors.

1.1.7 Security Services

During the review period, the Bank sustained its objective of maintaining the highest level of corporate security, and provided a safe and conducive working environment for effective and efficient performance of its processes. Thus, the Bank adopted security management best practices; deployed security tools and equipment to guarantee asset protection, personnel safety and operational resilience to minimise the cost of security operations.

The CBN commenced the deployment of a Security Command and Control Center to provide centralised linkages of all vital security systems, equipment and communications. This was to ensure seamless and mass distribution of critical instructions, notifications, and alerts, based on formalised response plans, to reduce response time to security incidents.

The surveillance systems were enhanced in all branches of the Bank for improved monitoring of effective security practices, processes and equipment utilisation. Furthermore, it strengthened collaboration with relevant security agencies, including the Nigeria Police, the Department of State Security Services and the Federal Fire Service, and implemented specific security measures to mitigate unforeseen threats against Bank's facilities and operations. It also carried out offsite/onsite monitoring of its profiled service providers in line with the Service Level Agreement (SLA).

In order to enhance the capacity of security operatives, the Bank organised a Basic Security Operations course for about 501 security personnel. In addition, due to heightened security concerns in the country, the CBN organised security awareness seminars to enlighten, educate and ensure staff alertness and safety.

To further guard against fire emergencies and complement existing facilities, the Bank complied with the National Fire Safety Code requirement on the testing of fire and safety installations in the Abuja Head Office. Also, it implemented a Fire Safety Policy and established the ISO 450001 Occupational Health and Safety Standards, to strengthen its safety management processes.

Furthermore, as part of its strategy to stem the abuse of the naira, the Bank intensified collaboration with the security agencies, and sustained the intelligence-based and sensitisation approaches to curb counterfeiting, illicit sale and abuse of the currency.

1.1.8 Internal Audit

During the review period, a detailed audit was conducted, involving sixty (60), fifty (50) and eighty (80) audits of departments, processes and branches. Two hundred and thirty-six (236) currency disposal operations, requiring audit witnesses, were completed. At end-December 2018, currency stock taking was conducted in all branches of the Bank. Also, a capacity development programme was organised for auditees and auditors on the audit management software (Teammate), Interactive Data Explorative Analysis

(IDEA), and Caseware monitor solution, to ensure smooth auditing process. The deployment of these softwares provided a standardised audit approach across business processes and transactions in the Bank.

1.1.9 Risk Management

In 2018, the Bank's risk management effort focused primarily on the implementation of the approved enterprise risk mechanism (ERM) framework and risk management policies. This was to develop frameworks for the identification, management and control of risks that could impede the fulfillment of the Bank's mandate; and promote strong corporate governance, sound risk culture and relevant expertise across the Bank and financial sector.

The Bank conducted thirty-five (35) Risk Control Self Assessments (RCSA) and Independent Risk Assessments (IRA) workshops for selected Business Units (BUs) in line with its ERM Frameworks. The RCSA and IRA were key risk management tools required for the identification, evaluation and prioritisation of risks associated with the Bank's operations. The outcomes of the workshops were used to initiate necessary risk mitigation measures as well as update the Enterprise Risk Register.

In addition, Key Risk Indicators (KRIs) were established across all 37 SBUs as a proactive measure to monitor early warning signals associated with key risks facing the Bank. The KRIs were measured against agreed thresholds that allowed for timely corrective actions to avert risk and mitigate the impact of associated risk in the event that they occur.

The CBN served as the secretariat for the financial industry's Chief Risk Officers' Forum that deliberated on key challenges of the sector with suggestions on how to advance the practice of risk management in the financial sector.

1.1.10 Strategic Initiatives and Business Process Management

The CBN continued the coordination, monitoring and reporting of its strategic projects and initiatives during the review period. These activities provided the required data and information to make informed decisions on strategic initiatives that were being implemented.

In addition, the annual budgeting and funnelling processes were completed. These involved the rationalisation and prioritisation of all existing and proposed strategic initiatives of the Bank. The exercise requires engagement with all strategic business units (SBUs) in the Bank to clarify their intentions on initiatives in the succeeding year, and ensuring that only initiatives aligned with the Bank's strategic objectives and priorities were recommended to the Board for funding. The output of this task forms an input to the annual budgeting process of the Bank.

The CBN continued to strengthen its project governance, through the implementation of the Enterprise Programme Management (EPM) functions to achieve better performance monitoring of projects, reduce project implementation cycle time, obtain timely project benefits and effectively manage project budget utilisation. Several engagements were successfully held with all the Business Units, on key performance expectations, with the aim of stimulating improved operational performance culture across the Bank. Considering the developments in technology and the need to address regulatory gaps and increase effectiveness in the supervision of non-bank financial institutions in the Nigeria payment space, a new department, the Payments System Management Department, was established.

The Bank also reassessed the current practice of Enterprise Architecture (EA) operating model domiciled in the Information Technology Department and the need to re-model it in line with People, Process and Technology (PPT) became apparent. Consequently, a Division was created in each of the following Departments: Human Resources, Strategy Management and Information Technology. This was to ensure effective and efficient practice of EA in the Bank.

The CBN conducted skills upgrade workshop for strategy facilitators across the SBUs to build the capacity required to perform assigned tasks. The Workshop was aimed at motivating, supporting and inspiring actions towards the implementation of the Bank's strategy by ensuring the understanding of its strategic priorities, stimulating and institutionalising change management among staff, and fostering increased participation and commitment to the Strategy.

1.1.11 Communications

The communication channels of the Bank were sustained for the dissemination, and enlightenment of stakeholders and the general public on policies, programmes and other activities of the Bank. The publication of communiqués of the MPC and the decisions of the Bankers' Committee, as well as, policy positions of the Bank continued. This was to uphold transparency and accountability in the conduct of the Banks' activities in line with global best practice.

In addition, the Bank approved the transmission of MPC Communiqué to the Chairmen of Banking Committees (Senate and House of Representatives) of the National Assembly within 48 hours of its release. Also, the CBN periodically provided adequate briefing to various Committees of the two chambers of the National Assembly on the state of the economy, and in particular, the health of the banking system.

Furthermore, there were public enlightenments/documentaries on the Bank's interventions in the Inter-Bank Foreign Exchange market; Currency swap agreement between the Central Bank of Nigeria (CBN) and the Peoples' Bank of China (PBoC); development finance interventions, especially the Anchor Borrowers' Programme; and the exclusion of 42 items from the list of items valid for access to foreign exchange on the official window.

The CBN coordinated an oversight visit to its project in Lagos from February 22 – 23, 2018 by the House of Representatives Committee on Banking and Currency. The maiden statutory briefing of the National Assembly through the Senate Committee on Banking, Insurance and Other Financial Institutions was also held in Lagos from November 1 – 2, 2018.

Two Chatham House-style stakeholder engagements were held in Lagos and Abuja to educate media practitioners on various policies/issues concerning the Bank such as:

- Autonomy of the CBN;
- Proposed Amendment of the Currency Offences Act;
- Delayed confirmation of Bank's Board members and members of the Monetary Policy Committee (MPC) by the Senate;
- Currency swap agreement between the Central Bank of Nigeria (CBN) and the Peoples' Bank of China (PBoC); and
- Foreign exchange market operations.

The Bank alerted Hosting Service Providers (HSPs) and domain name Registrars of fake websites that misguided users who wanted to contact the CBN or its branches. This helped to curb the growth of fake websites.

As part of further effort in expanding its reach to the public, the Bank participated in two(2) International Trade Fairs, which held in Abuja and Lagos. It won the "Best Supporter for SMEs Award" at the Abuja International Trade Fair and was recognised for active participation at the Lagos International Trade Fair. In addition, the Bank participated at the AgrikExpo and AgroFood conferences 2018 held at the International Conference Centre, Abuja from September 18 - 20, 2018.

In the review year, the Bank developed a feedback mechanism to gather information for the selection of its "Best Managed Branch". It also established a registration portal for the 2018 Mid-Year Statutory Meetings of West African Monetary Agency (WAMA), West African Monetary Institute (WAMI) and West African Institute for Financial and Economic Management (WAIFEM). The portal provided an invaluable logistics ease and enhanced participants' identification, management of pick-ups and hotel reservations, among other needs of the participants.

Furthermore, the website for the Financial System Stability (FSS) 2020 was developed and completed in the review period. Similarly, the development of the website for the Payments System Vision 2020 reached 90.0 per cent completion. Also, the various departmental portals on the intranet were completed.

The Bank sustained capacity building for Finance Correspondents and Business Editors by organising the Annual Seminar in two runs. The first run was held at Uyo, Akwa Ibom State from April 3 – 6, 2018, while the second run took place at Lokoja, Kogi State from October 24 - 27, 2018. Also, the CBN hosted over 90 associations/Institutions on educational excursions to its Lagos and Abuja Offices.

1.1.12 Anti-Corruption and Ethical Issues

The Bank conducted the Annual Ethics, Compliance and Anti-Corruption Seminar for its employees with the theme "Compliance and Ethics Disasters: Prevention and Control", to re-emphasise the consequences of corruption and unethical conduct. The CBN received 1,554 scam e-mails and acted promptly to protect potential fraud victims from scammers on spurious contracts and requests soliciting for monies from persons in Europe, South America, Asia and Africa. Fifty-seven (57) complaints were received from members of the public against commercial banks, some of the mails were referred to other business units of the Bank for investigation and others to the EFCC for necessary action.

As part of its effort on anti-money laundering and combating financing of terrorism (AML/CFT), the CBN AML/CFT Policy and Procedure Manual was completed and approved by Management. Also, the Bank engaged with both internal and external stakeholders. These included: inter-departmental stakeholders meetings; Association of Chief Compliance Officers of Banks in Nigeria (ACCOBIN) bi-monthly meetings; quarterly Inter Governmental Agencies meetings with NFIU; EFCC; and other Law Enforcement Agencies, Inter-governmental Action Group against Money Laundering in West Africa (GIABA); Special Control Unit for Money Laundering (SCUML); Ministries of Justice, Finance, and Interior.

In all 37 CBN Branches, customers due diligence (CDD) exercises were conducted out to ascertain their levels of compliance with Know Your

Customer (KYC) documentation requirements. Also, their compliance with the rendition of AML/CFT returns on monthly basis was confirmed. Recommendations and measures to address identified lapses were made to Management.

Also, a sensitisation exercise on "Fraud as a Predicate Offence" was carried out at all the branches and five (5) departments in the Head Office. AML/CFT questionnaires were received from 15 correspondent banks, including Commerz Bank, Deutsche Bundes Bank, Access Bank UK, Zenith Bank UK and FCMB UK. The questionnaires were completed and forwarded to the respective banks. Similarly, the CBN AML/CFT questionnaires were administered to correspondent banks to assist in determining the level of compliance with FATF Regulations and all other relevant laws.

Branches rendered Special Report on Funds Transactions (SRFT) in compliance with the AML/CFT Laws and Regulations. The Bank was represented in a Special Committee set up by the Attorney-General of the Federation and Minister of Justice on the recovery of the National Health Insurance Scheme (NHIS) funds trapped in commercial banks.

1.1.13 The Financial System Strategy (FSS) 2020

The CBN continued to strengthen the domestic financial market by aligning it with the international financial market, through the activities of the FSS 2020. The actions were aimed at ensuring a sustainable economic growth through its five (5) Sectors (mortgage, insurance, pension, commodity and MSME), as well as three (3) Enabler initiatives (legal, communication and advocacy). Also, the Bank collaborated with other critical stakeholders to initiate and implement policies to promote the rapid development of the mortgage sector that would alleviate the dearth of affordable long-term finance to satisfy the housing needs of Nigerians. To address this challenge, quarterly FSS2020 Mortgage Forum was held in Abuja. It recommended, among others, that pension contributions of workers in retirement savings accounts (RSAs) should be used as equity for securing mortgages; the establishment of credit rating standards for mortgages; and the harmonisation of mortgage sector Bills before the National Assembly.

During the period under review, the CBN organised a high-level roundtable on the proposed Nigeria Green Smart City Project (NGSCP). This would provide a veritable platform to attract international finance for sustainable housing delivery in Nigeria. Four (4) states (Lagos, Rivers, Kaduna and Enugu), and the Federal Capital Territory (FCT) were selected to pilot the NGSCP. Also, the Bank collaborated with the African Diaspora Chamber of Commerce (ADCC) on the use of Diaspora Fund for Infrastructure Development.

The CBN set up a Technical Committee to assess the possibility of introducing mortgage products, with a single digit interest rate, to address the challenge of high interest rates for mortgage, which was between 17.5 and 22.0 per cent. Furthermore, the Bank organised a discussion series for mortgage experts on the theme – "Mobilisation of Finance for Affordable Housing" to sensitise the public on the activities of the Sector.

In the review year, the CBN participated in the assignment on Commodity Trading Ecosystem in Nigeria, coordinated by the Security and Exchange Commission (SEC) Technical Committee. The Committee made some recommendations and assigned responsibilities to relevant stakeholders in four phases for effective implementation. Phase 1 was to ensure food sufficiency and security, price discovery and market development, while the second phase, focused on developing strong trades in export commodities. The third phase, involved the introduction of solid minerals, energy and derivatives and the fourth phase, was to ensure strong international presence in the local exchanges. Also, the Bank collaborated with the Nigeria Economic Summit Group (NESG), Alliance for Green Revolution (AGRA), and AFEX Commodity Exchange to develop a robust framework on e-trading price index, and how to leverage on solid minerals commodity markets in Nigeria.

To further improve compliance, the CBN engaged key stakeholders to promote the adoption of the pension compliance certificate as a pre-condition to accessing the CBN SME Intervention funds. Pension sector Forum brought together all stakeholders from the pension industry to deliberate and brainstorm on emerging issues affecting the industry.

Furthermore, the CBN organised capacity building programme for Directors/Heads of Strategy of the Implementing Institutions, aimed at building skills for the implementation of FSS 2020 programmes. At the end of the retreat, the following recommendations, among others were made: facilitate the implementation of 17 new cross-cutting sectoral initiatives; improve funding for the secretariat to enhance implementation of initiatives by all stakeholders; review programme timeline from 2020 to a new date to enable the Secretariat continue the coordination of the implementation of the on-going and new cross cutting initiatives; and establish a technical committee comprising Directors/Heads of Strategy of implementing agencies, to review programme status and set up the Programme Supervisory Board (PSB) as the highest decision making body of the Secretariat, with the Governor of the CBN as the Chairman.

During the year under review, the Bank collaborated with the SMEDAN, the BOI, and the NEXIM to facilitate the development of a framework for the establishment of an SME Rating Agency for Nigeria (SMERAN). The SMERAN initiative was to de-risk lending and provide credit position of intending borrowers to all parties in the MSME space. Communication and advocacy of activities of the FSS 2020 was done through electronic and print media, Newsletter, web portal and social media.

1.1.14 The Shared Services Project

The CBN continued its nationwide sensitisation campaign on the Cashless Policy, aimed at encouraging members of the public to adopt alternative means of payment in their daily transactions. The campaign covered 30 states of the Federation, which were not yet under the policy. The Policy was being implemented in some States, namely, Abia, Anambra, Kano, Lagos, Ogun, and Rivers and the FCT.

Also, the Nigeria electronic Fraud Forum (NeFF) led a delegation of industry stakeholders to the Office of the National Security Adviser (ONSA), to assess

the capacity of the Nigerian Cert Computer Emergency Response Team (ngCERT) and explore the possibility of the Office partnering with the financial industry. In addition, the NeFF partnered with the Nigeria Communications Commission (NCC), to conduct an industry stakeholders workshop on Cybercrime, and subsequently, on-boarded representatives of all the major TELCOs as members of the NeFF. Similarly, discussions commenced on the creation of an automated system (a shared infrastructure) for real-time exchange of information between banks and the mobile network operators (MNOs), which will curb the rising incidences of fraud, occasioned by unauthorised Subscriber Identity Module (SIM) swaps and SIM recycle in the country. The infrastructure was proposed to be located at the Nigeria Inter-Bank Settlement System (NIBSS) Office.

During the review period, the NeFF Steering Committee held a retreat in Ibadan, Oyo State, where the payments industry's focus of engagement for 2018 was deliberated and agreed upon. The theme of the Retreat was "Operationalising a Four-Sided Approach to Preventing Fraud". It provided opportunity for dissecting contemporary issues affecting the payments system from four (4) perspectives, namely: Banking; Ecosystem; Law Enforcement; and Telecommunication. At the end of the retreat, an Industry-wide Stakeholders committee was constituted to review issues on ATM-related channels fraud and come up with recommendations for implementation in the first quarter of 2018.

To provide opportunity for a reduction of operating costs and improve the overall efficiency of the Nigerian banking sector, the Bank, in conjunction with the Bankers Committee, accepted the implementation of the shared IT Infrastructure initiatives. The initiatives were: the Shared National Financial Services Network (NFSN); the Shared Power Infrastructure; and the Tier-3 Recovery Data Centre (RDC).

Under the Shared Data Centre Project, the following vendors, namely: MainOne, MTN and Rack Centre, were selected to provide Tier-3 Data Centre Services for the DMBs. In addition, a Master Service Agreement (MSA) was executed between the vendors and the CBN, on behalf of the industry to guide the provision of the Data Centre Services and its usage.

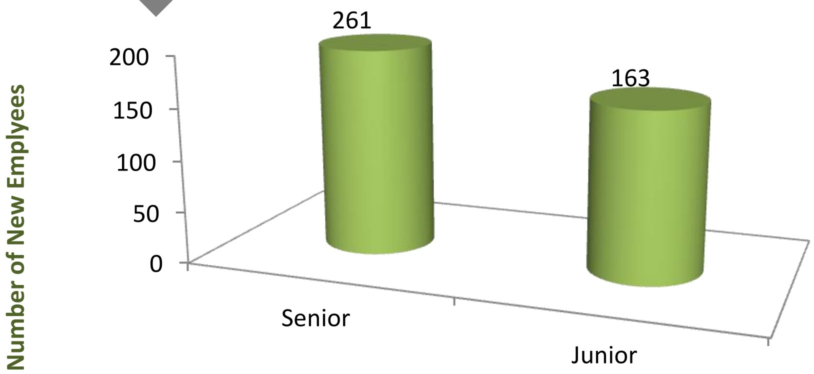
To articulate and define the IT Standards blueprint for industry adoption and improve IT leverage to enhance operating efficiency of banks, the following milestones were achieved:

- Developed IT Standards Blueprint for compliance by publishing it on the CBN website;
- Developed Governance Model and processes;
- Inaugurated the IT Standards and Governance Council;
- Carried out the first annual review of the IT Standards Blueprint;
- Conducted IT Standards baseline Audit for IT Infrastructure Library (ITIL) and the ISO 27001 and ISO 8583; and
- Conducted IT Standards remediation exercise for gaps identified in the baseline audit.

1.1.15 Staff

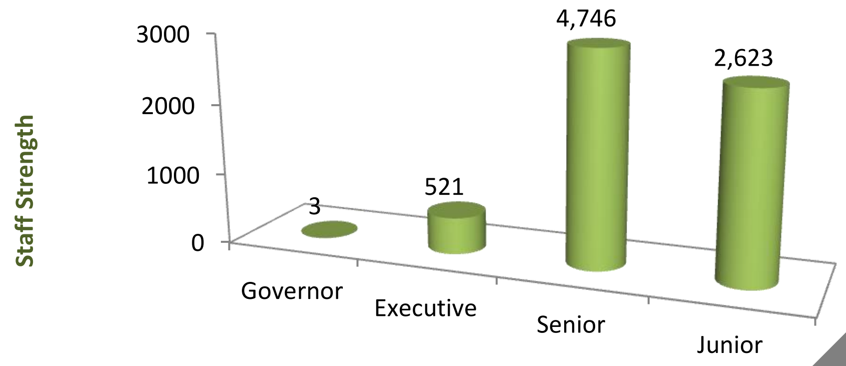
The Bank lost the services of two hundred and fifty-four (254) staff through the following modes of exit: voluntary retirement, thirty-eight (38); compulsory retirement, two (2); mandatory retirement, 143; withdrawal of service, four (4); resignation, sixteen (16); and death, twenty-two (22). The appointments of five (5) staff were terminated; seventeen (17) were dismissed; and the services of seven (7) contract staff were determined.

Figure 1.1: Recruitment of New Employees in 2017



Source: CBN

Figure 1.2: Staff Strength by Category and Gender at end-December, 2017



Source: CBN

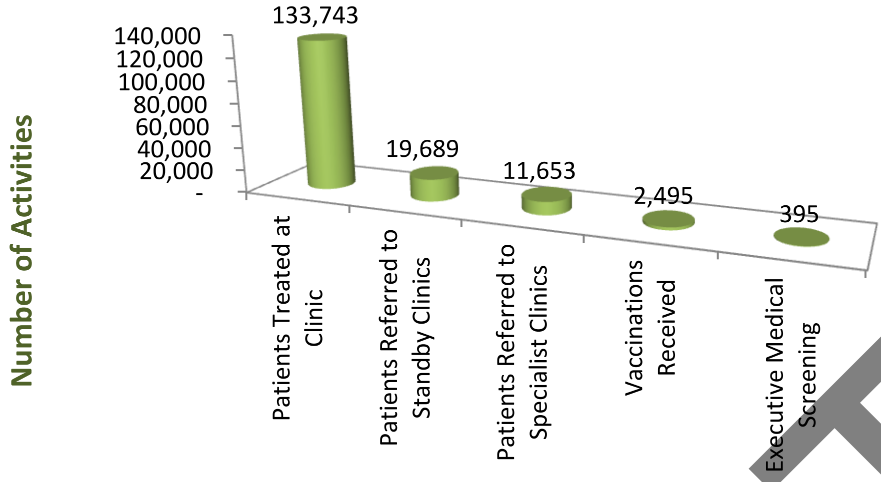
1.1.16 Medical Services

The Bank provided varied medical interventions to sustain a healthy and productive workforce. The Bank's staff clinics attended to a total of 133,743 cases, involving staff and their dependants. Of these cases, 19,689 were referred to stand-by hospitals, while seventy-one (71) staff/dependants were treated overseas for conditions that could not be handled locally. A total of two thousand, four hundred and ninety-five (2,495) routine immunisation were administered to staff children in the review period. Also, 782 prospective employees were screened for diseases and substance abuse.

As part of the comprehensive health care plan for Bank staff, several health talks/seminars were conducted on topical health issues such as: ebola virus disease (EVD); hepatitis B infection; HIV/AIDS; diabetes mellitus; and hypertension. Furthermore, the average participation rate at the Healthy Lifestyle Programme (HLP) organised in the branches was 78.1 per cent, while those in Abuja and Lagos recorded low participation rates of 17.0 per cent and 14.0 per cent, respectively.

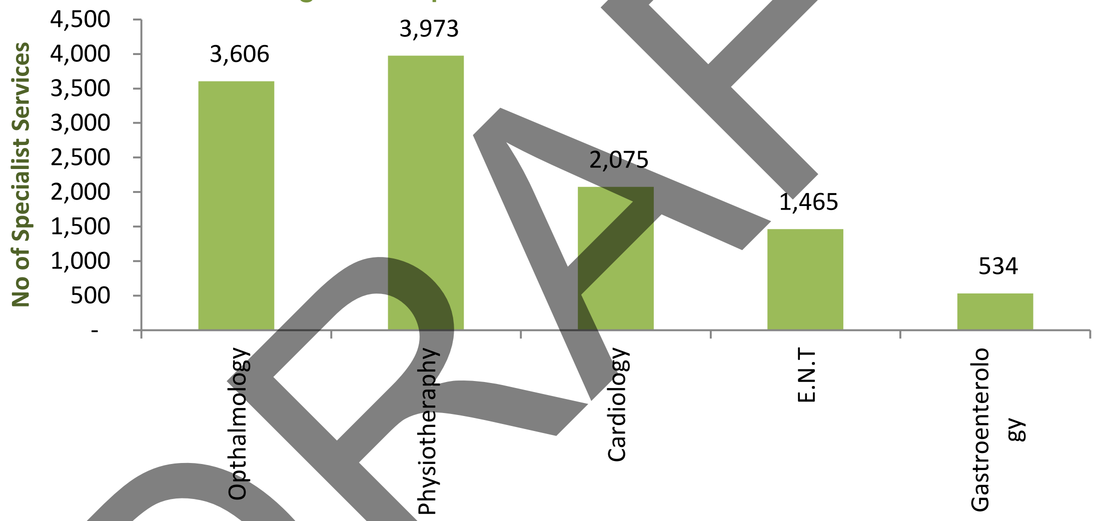
Of the five (5) in-house specialty clinics, physiotherapy had the highest attendance of 3,973, followed by ophthalmology with 3,606 and gastroenterology had the least attendance of 534. The Bank also sponsored comprehensive medical screening of 395 executives.

Figure 1.3: Staff Clinic Activities, 2018



Source: CBN

Figure 1.4: Specialist Medical Services, 2018

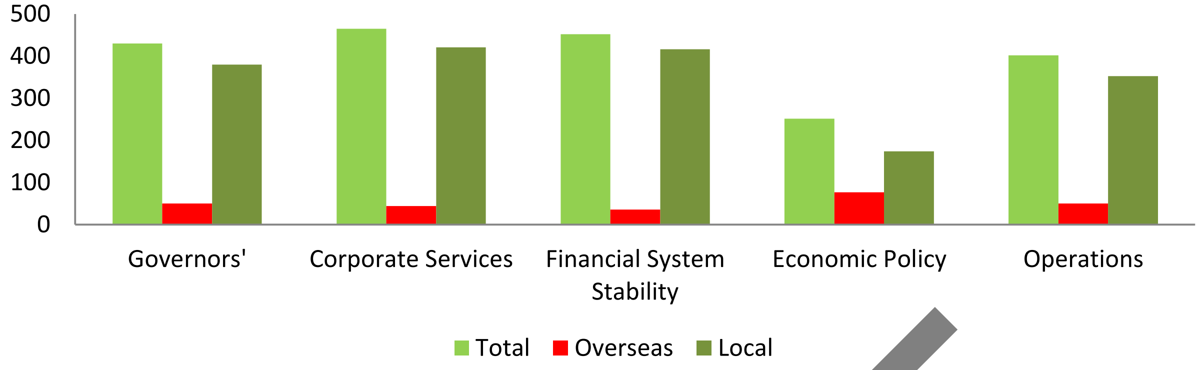


Source: CBN

1.1.17 Training

In line with the Bank's manpower development strategy, 2,725 staff participated in 227 training programmes in the review period. The training distribution pattern of the five (5) Directorates of the Bank showed that the Corporate Services Directorate recorded the highest with 465; followed by the Financial System Stability with 452; while the Economic Policy Directorate recorded the least with 251. Also, 248 new appointees/hires participated in induction courses.

Figure 1.5: Local and Foreign Training Distribution by Directorate, 2017



Source: CBN

Analysis of local training slots by gender indicated that male staff had 1,683 training, while the female counterparts had 591, representing 74.0 and 26.0 per cent, respectively. Similarly, 241 male and seventy-eight (78) female staff participated in foreign training programme during the review period, indicating 76.0 and 24.0 per cent, respectively.

Figure 1.6: Local and Foreign Training Distribution by Gender, 2017

Source: CBN

1.1.18 The International Training Institute (ITI)

The Bank developed the framework to support staff development in specialised fields and other professional programmes such as the Certified Financial Analyst (CFA) certification. Also, in-house courses were developed on: self-leadership series, to address identified soft skill gaps; achieving peak performance for junior cadre; achieving peak performance for drivers; and understanding leadership for first line supervisors (Senior Supervisors – Deputy Managers).

In 2017, the Bank instituted soft skills training on: Leadership Development; Inspirational Leadership for Executives; CBN Analyst Boot Camp for Middle

Level Managers; and Lean Management for Branch Controllers and Executives. Others were: Meeting Management and Minute Writing for Senior and Executive staff; Management Development; Pre-Retirement training; and diversified SkillSoft e-Learning platform for all staff.

In the review period, the ITI delivered seventy-four (74) training programmes. The programmes were hosted in partnership with notable institutions such as: the Federal Reserve Bank of America (FRB), the International Monetary Fund (IMF), the West African Institute for Financial and Economic Management (WAIFEM), the Lagos Business School (LBS), the Association for Talent Development (ATD), USA and Myers-Briggs Type Indicator (MBTI) institute. Twenty-four (24) Bank staff were certified as Myers-Briggs Type Indicator (MBTI) professionals in the review period. The ITI witnessed increased participation from other African central banks and MDAs, namely, Ghana, The Gambia, Lesotho, Liberia, Zimbabwe, Swaziland, Kenya, Malawi and the African Export Import Bank (AFREXIM), Egypt, as well as, the Nigerian Immigration Services (NIS), Nigerian Export-Import Bank (NEXIM), the Nigerian Association of Chamber of Commerce, Industry, Mines and Agriculture (NACCIMA), the Nigerian Maritime Administration and Safety Agency (NIMASA), Nigeria Technical Cooperation Fund (NTCF), the Nigerian Ports Authority (NPA), Ministry of Industry, Trade and Investment, Ministry of Foreign Affairs and the Standards Organisation of Nigeria (SON).

Furthermore, the Institute in 2017 commenced live streaming of the capacity development programmes with the 2017 Executive Seminar held in Lagos and launched the CBN Open On-line Learning (COOL).

1.1.19 Staff Promotion

To boost morale and enhance performance, the Bank upgraded 198 Staff and promoted 2,300 to different grades in the review period.

1.1.20 Recreational Activities

The Bank, in collaboration with relevant stakeholders, sponsored various competitions in line with its corporate social responsibility. These included lawn tennis, football and golf competitions. The 40th CBN Senior Open Tennis

Championship was held in Abuja from March 31 - April 7, 2018. Similarly, the 13th Edition of the CBN Junior Tennis Tournament was held in Lagos from June 21 - 30, 2018. Also, the 38th edition of the Governor's Cup Football Competition for all CBN branches was held at the Sani Abacha Stadium, Kano, Kano State on July 28, 2018 and the Lagos Branch won the competition.

Furthermore, the 32nd All Financial Institutions Football Competition was held in Ibadan, Oyo State on October 20, 2018, the Security and Exchange Commission (SEC) Football Club emerged the winner. The Bank also sponsored the 12th Edition of the CBN Governor's Golf Tournament, which took place at the IBB International Golf and Country Club, Abuja, on December 8, 2018. It maintained the workplace gymnasia at the Bank's Corporate Head Office, Abuja, and in some branches of the Bank, which enjoyed high patronage.

1.1.21 Corporate Social Responsibility (CSR)

The Bank continued its corporate social responsibility through capacity building and the provision of financial and other forms of assistance to institutions and organisations. One hundred and sixty-six (166) project requests for financial assistance were received and processed in the review period. Of this number, sixty-seven (67) projects, spread across the six geo-political zones of the country, were approved, resulting in the disbursement of ₦291.5 million, compared with 271 projects valued at ₦269.5 million in 2015. Further analysis of the projects indicated that thirty-five (35) focused on community development; health care, twelve (12); education and research, eleven (11); women and youth empowerment, six (6); and sports development, three (3).

1.1.22 Special Intervention Projects under CSR

Pursuant to the objective of providing learning support infrastructure for universities and secondary schools across the country, the Bank completed the construction of facilities for the following institutions in the review period: Boys Secondary School, Awkunanu, Enugu State; Anambra State University, Uli; Rumfa College, Kano, Kano State; and Government Science College,

Badarawa, Kebbi State. Others included: Community Secondary School, Dukku, Gombe State; Federal Science and Technical College, Otukpo, Benue State; Cross River State University of Technology, Calabar; Bishop Phillips Academy, Ibadan, Oyo State; Lisabi Grammar School, Abeokuta, Ogun State; and Oyo State University of Technology, Ibadan.

No projects were embarked on in 2018. However, a technical Committee has identified three (3) Charity homes and awaiting Board of Trustees (BOT) approval for the commencement of the projects at the selected charity homes.

1.1.23 Staff Social Responsibility

The staff of the Bank sustained their support for the less-privileged in the society through regular contributions to the CBN Staff Alms Fund (C-SAF). A total of ₦13,564,310.00 was realised from the monthly departmental contributions at end - December, 2018. Furthermore, food and gift items totaling ₦2.00 million were donated to the less privileged to commemorate the 2018 Annual Sallah and Christmas celebrations in Lagos and Abuja. The Branches also contributed and carried out various charity projects in their locations.

1.1.24 Nigerian Sustainable Banking Initiatives

The Bank sponsored sustainability awards for the banking industry in three categories: sustainable bank of the year; bank of the year in women economic empowerment; and sustainable transaction of the year. This was to encourage the industry operators to effectively implement the sustainable banking principles. The Annual International Women and World Environment Days were celebrated on March 8, 2018 and June 5, 2018, respectively. Consequently, there were awareness sessions on plastic pollution and the steps the Bank took to reduce its greenhouse gas emissions through recycling of paper waste. The CBN received the first batch of the recycled waste paper in the form of toilet papers and distributed them across all SBUs to further enhance sustainable banking principles among staff.

1.2 RESEARCH AND COLLABORATIVE ACTIVITIES

The CBN conducted research and collaborative studies, and disseminated information on key issues relating to the Nigerian economy. The regular publications of the Bank were sustained in the review period. These included the: 2017 Annual Report; 2018 Half-Year Economic Report; Monetary Policy Review; bi-annual Financial Stability Report; Quarterly CBN Economic and Financial Review; the biennial CBN Briefs; the 2017 Statistical Bulletin; and the bi-annual CBN Journal of Applied Statistics. Others included: occasional paper series, titled Fiscal Incentives in the Manufacturing Sector in Nigeria; Nowcasting Nigeria's External Balance; An Appraisal of Microfinance Banks in Nigeria; Dynamics of the Nigerian Banking System; and Forecasting Nigeria's Gross Domestic Product using A Data Rich Framework in Nigeria; the Proceedings of the FLAC and the MPIC; as well as the CBN Bullion.

The Bank also collaborated with the National Bureau of Statistics (NBS) to conduct the 2018 Household, Finance and Consumption Survey. It honoured requests to present papers and facilitated training programmes, including those from the Federal Ministry of Budget and National Planning, Chartered Institute of Bankers of Nigeria (CIBN), the West African Institute for Financial and Economic Management (WAIFEM), the College of Supervisors for the West African Monetary Zone (CSWAMZ), the Association of African Central Banks (AACB), and the International Monetary Fund (IMF). In addition, staff presented papers at professional conferences, nationally and internationally, including the Nigerian Economic Society (NES), and the Nigerian Statistical Association (NSA).

The Bank conducted research and collaborative studies, and disseminated information on key issues relating to the Nigerian economy, through its various publications.

BOX 1: Enhancing the Macroeconomic Modeling Toolkits at the Central Bank of Nigeria

Towards achieving the core mandate of price and financial stability, the Central Bank of Nigeria (CBN) continues to rely on "suite of econometric models", to provide forward-guidance in decision-making process for the Monetary Policy Committee (MPC). It also provides support on critical contemporary issues for Management.

Generally, in macroeconomic modeling, there are two problems that are frequently encountered. The first is related to differences in the frequency of variables. The second is the problem of dimensionality, which stems from having too many explanatory variables in a regression model, in the face of limited sample observations.

In the review period, one of the initiatives of the Bank's modeling Team was the construction of a Factor Augmented Mixed Data Sampling (FAMIDAS) regression framework to generate forecasts of real GDP growth and its components (i.e oil and non-oil GDP), for Nigeria. The FAMIDAS is a dynamic model that can extract principal component of several independent variables with different frequencies to forecast the variable of interest, thereby eliminating the problem of dimensionality associated with the inclusion of a large set of variables. In an effort to forecast real GDP growth through the FAMIDAS, the leading indicators of real GDP growth were compressed into two groups of five (5) monthly and quarterly variables each, and these variables were incorporated into the FAMIDAS regression framework to generate nowcasts and forecasts of real GDP growth and its components.

Furthermore, other models were developed during the review period to enhance the robustness of the toolkits available to the Bank's Management in order to enrich monetary policy discussions. These included: Revisiting the Inflation Threshold for Nigeria; and Financial Conditions Index and the CBN Factor-Augmented Vector Autoregression (FAVAR).

1.3 THE CBN BALANCE SHEET

1.3.1 Income and Appropriation

The audited financial statements of the CBN for the year ended 31st December, 2017 indicated that total income was ₦2,165.10 billion, compared with ₦1,675.81 billion in 2016. At ₦400.46 billion, net operating income showed a 38.8 per cent decrease below the ₦654.87 recorded in 2016. The decrease in net operating income was as a result of fair value loss on financial instruments. The fair value loss thereby brought about a reduction of the net income for 2017 to ₦70.17 billion, compared with ₦104.93 in 2016. In line with the provisions of the *Fiscal Responsibility Act 2011*, 20.0 per cent of the net income will be credited to retained earnings (reserves), while the balance will be paid to the Federal Government.

1.3.2 Assets and Liabilities

The size of CBN's balance sheet expanded further in 2017 as total assets/ liabilities increased by 35.0 per cent to ₦29.31 trillion. The increase in assets resulted mainly from External Reserves, Loans and Receivables, holdings of

SDR and Quota in the IMF. The corresponding increase on the liability side resulted mainly from increased CBN issued instruments, increased IMF and other liabilities.

CHAPTER TWO

MONETARY POLICY, SURVEILLANCE ACTIVITIES, AND OPERATIONS OF THE CBN

Monetary policy was shaped by major developments in the global and domestic macroeconomic environment in 2018. Developments on the global front included: moderate global growth; unabated volatility in the global financial markets; continued uncertainty surrounding BREXIT; and monetary policy normalisation in advanced economies, particularly the United States. At the domestic scene, the key developments were: sustained economic recovery; increase in external reserves; persistent banking system liquidity; and inflationary pressure. Consequently, the non-expansionary monetary policy stance of the Bank was maintained in 2018. The monetary policy rate (MPR) was retained at 14.0 per cent throughout the year, alongside the asymmetric corridor of +200 and -500 basis points around the MPR for the standing facilities. The cash reserve ratio (CRR) and liquidity ratio (LR) were retained at the respective rates of 22.5 and 30.0 per cent, to sustain the potency of previous monetary policy measures. The Bank also introduced a broader measure of money supply (M_3)[1] during the review period to account for the monetary liabilities of primary mortgage and microfinance banks as well as the holdings of CBN bills by the non-bank public.

Major monetary aggregates trended upwards in the review period and were higher than their indicative targets for the year. Interest rates reflected liquidity conditions in the banking system and were generally lower than their levels in the preceding year. Open Market Operations (OMO) remained the main tool for liquidity management, complemented by discount window activities, reserve requirements and interventions in the foreign exchange market.

Furthermore, the Bank sustained its supervisory and surveillance activities to maintain the stability and soundness of the banking system. The progress made in the payments and settlement system was sustained, and development finance interventions of the Bank remained active in 2018.

2.1 MONETARY OPERATIONS

2.1.1 Monetary and Credit Developments

Monetary policy was influenced by global and domestic macroeconomic factors in 2018. Major global developments included: moderate growth in global output; unabated volatility in the global financial markets; continued uncertainty surrounding BREXIT negotiations; and the monetary policy normalisation by the US Federal Reserve, which had combined negative effects of capital flows. The key developments on the domestic front were: sustained economic recovery; stability in the exchange rate; increase in

[1] M_3 comprises M_2 plus stock of CBN bills held by the non-bank public; $M_2 = M_1$ + Saving and time deposits in commercial banks, merchant banks, primary mortgage banks and microfinance banks.

external reserves; persistent surplus banking system liquidity; and resurging inflationary pressure.

Consequently, the non-expansionary monetary policy stance was maintained in 2018, to improve internal and external macroeconomic balances. The Bank maintained its MPR at 14.0 per cent, throughout the year, along with the asymmetric corridor of +200 and -500 basis points around the MPR. Also, the CRR and LR were retained at the respective rates of 22.5 and 30.0 per cent.

Broad measures of money supply, M_2 and M_3, grew by 12.1 per cent and 16.6 per cent, respectively, at end–December 2018, compared with their respective levels of 2.3 and 0.6 per cent at end-December 2017. The growth in M_2 was on account of the 18.5, 6.3 and 1.3 per cent increase in net foreign assets, aggregate credit (net) and other assets (net) of the banking system, respectively, while growth in M_3 reflected the 38.9 per cent growth in non-bank holdings of CBN bills. Narrow money supply (M_1) and quasi-money grew by 5.2 and 18.1 per cent, respectively at end-December 2018. The growth in M_1 reflected the respective increase of 4.8 and 7.3 per cent in its demand deposits and currency components, while quasi money grew on account of the 28.1 per cent growth in foreign currency deposits with the banks. At end-December 2017, growth in quasi money was 5.2 per cent, while narrow money supply declined by 0.9 per cent.

Growth in aggregate credit to the domestic economy (net) was 6.3 per cent at end-December 2018, in contrast to the decline of 3.5 per cent at end-December 2017. The development was due to the 33.7 and 1.9 per cent increase in net claims on the Federal Government and claims on the private sector, respectively. The growth of NDC at end-December 2018, however, fell short of the indicative benchmark of 14.6 per cent for 2018.

Reserve money grew by 10.1 per cent, year-on-year, but was lower than the benchmark rate of 14.6 per cent for 2018. The upward movement in reserve money owed to the respective growth of 20.1 per cent and 40.8 per cent in net foreign and net domestic assets of the CBN, while the corresponding change in monetary liabilities reflected growth in currency-in-circulation and bank reserves of 8.0 per cent and 11.1 per cent, respectively.

Table 2.1 : Key Policy Targets and Outcomes, 2014- 2018 (per cent)

	2014		2015		2016		2017		2018	
	Target	Outcome	Target	Outcome	Target	Outcome	Target	Outcome	Target	Outcome
Growth in base money	21.28	16.52	16.78	-1.99	13.21	0.61	11.41	10.70	14.64	10.05
Growth in broad money (M_2)	15.02	20.55	15.25	5.90	10.98	17.78	10.29	1.74	11.92	12.17
Growth in narrow money (M_3)		11.84		2.22		31.32		0.59		16.58
Growth in narrow Money (M_1)	16.23	-1.82	9.91	24.14	11.34	31.50	11.07	-2.09		5.15
Growth in aggregate bank credit	28.49	32.60	29.30	12.13	17.94	24.27	17.93	-3.70	11.64	6.42
Growth in bank credit to the private sector	23.07	11.95	26.06	3.28	13.38	17.42	14.88	1.40	8.49	1.96
Inflation		8.00		9.55	11.90	18.55	10.71	15.37	12.71	11.37

Source: CBN
1/ Revised
2/Provisional

2.1.2 Liquidity Management

The lingering excess liquidity in the banking system was accentuated by increased fiscal disbursements in 2018, on account of increased foreign exchange receipts, following a recovery in crude oil production and prices. In addition, the liquidity situation was exacerbated by injections from maturing CBN bills and the redemption of FGN Bonds and Nigerian Treasury Bills (NTBs) during the review period. Accordingly, monetary policy focused on liquidity management to achieve the Bank's mandate of monetary and price stability conducive to economic growth.

The Bank also retained its monetary tightening stance, together with adoption of a confluence of policy measures to attract foreign capital and build external reserves, thereby moderating exchange rate and inflationary pressures during the review period.

Consequently, an appropriate cocktail of policy measures was implemented to support the financial market and ensure adequate funding of the real sector of the economy. The measures included: retaining MPR at 14.0 per cent with an asymmetric corridor of +200/-500 basis points for the standing lending facility (SLF) and standing deposit facility (SDF), respectively. In addition, the Cash Reserve Ratio (CRR) and Liquidity Ratio (LR) were also retained at 22.5 and 30.0 per cent, respectively. Furthermore, the Bank sustained intervention in the foreign exchange market, and retained the 'Investors' and 'Exporters' (I&E) window to boost foreign exchange supply from autonomous sources and stabilise the domestic currency. Thus, the naira/US dollar exchange rate generally stabilised, with marginal appreciation in all segments of the market during the year.

The Bank's key liquidity management instrument remained Open Market Operations (OMO), complemented by reserve requirements, repurchase agreements, standing facilities and discount window operations. The use of these money market instruments was complemented by the Bank's regular interventions in the foreign exchange market. In the review period, the Bank's monetary policy measures generally helped to manage liquidity surfeit in the banking system, and moderated domestic prices. Consequently, headline inflation declined during the year.

The performance of monetary aggregates relative to their benchmarks were mixed for the year. The monetary aggregate (M_2), however, out-performed its target, reflecting an increase in the net foreign assets and net domestic assets of the banking system during the review period. Growth in broad money supply (M_2) at 12.1 per cent was above the growth benchmark of 11.9 per cent. In addition, aggregate bank credit and credit to the private sector, which grew by 6.3 per cent and 1.9 per cent, however, performed significantly lower than their respective benchmarks of 14.6 and 8.2 per cent. The net foreign assets of the banking system grew by 18.5 per cent, compared with 69.6 per cent recorded at end-December 2017. The reserve money (RM) increased by 10.1 per cent to ₦7,135.73 billion in 2018, from

₦6,477.6 billion at end-December 2017, representing 6.4 per cent above the programmed benchmark of ₦6,703.80 billion in 2018.

2.1.3 Interest Rate Policy and Developments

Interest rates movement in the money market reflected developments in the banking system credit and liquidity conditions during the review period. Despite the non-expansionary monetary policy stance of the Bank, major money market rates were generally lower than their levels in the preceding year, due to ample liquidity in the market during the review period.

2.1.3.1 Money Market Rates

Money market rates in the review period were generally lower than their levels in the preceding year.

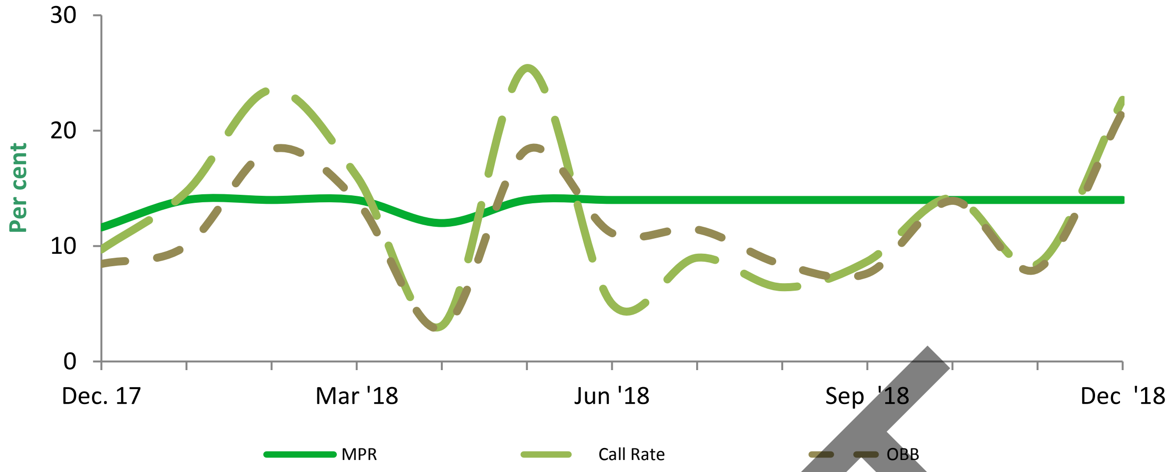
The weighted annual average inter-bank call and Open-Buy-Back (OBB) rates were 13.11 and 12.15 per cent in 2018, compared with 21.36 and 24.61 per cent, respectively, in 2017. The weighted monthly average inter-bank call rate ranged from 3.10 to 25.43 per cent, while the average monthly OBB ranged from 2.88 to 21.63 per cent in the review period.

Table 2.2 : Money Market Rates (Per cent)

WEIGHTED AVERAGE				
Month	MPR	Call Rate	OBB	NIBOR 30-day
Dec-17	14.00	9.71	8.46	16.95
Jan-18	14.00	14.72	10.04	15.09
Feb-18	14.00	23.54	18.4	15.12
Mar-18	14.00	16.06	13.92	15.32
Apr-18	14.00	3.1	2.88	12.91
May-18	14.00	25.43	18.37	13.15
Jun-18	14.00	5	11.13	13.94
Jul-18	14.00	9	11.44	13.18
Aug-18	14.00	6.44	8.42	11.87
Sep-18	14.00	8.68	7.64	12.91
Oct-18	14.00	14.18	13.93	13.71
Nov-18	14.00	8.45	8.01	12.64
Dec-18	14.00	22.68	21.64	15.28
Yearly Average (2018)	14.00	13.11	12.15	13.76
Yearly Average (2017)	14.00	21.36	24.61	25.21

Source: CBN

Figure 2.1: Money Market Rates (per cent), 2018



Source: CBN

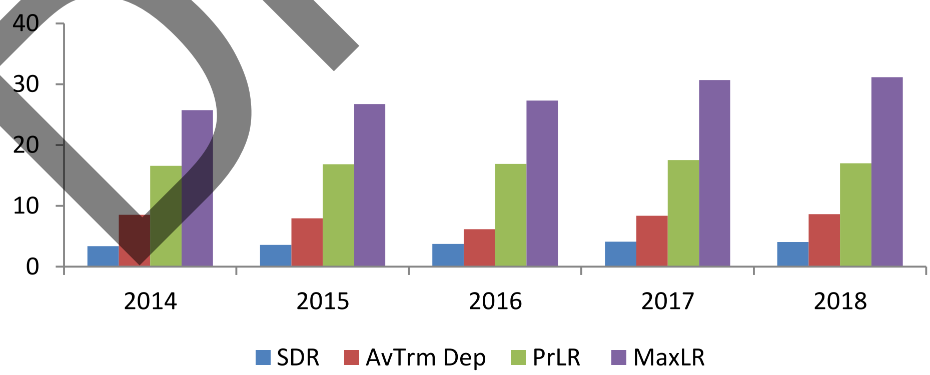
2.1.3.2 Deposit Rates

Average term deposit rate for the year rose by 27 basis points to 8.65 per cent in 2018, compared with 8.38 per cent in 2017, reflecting the Bank's effort to attract domestic savings.

2.1.3.3 Lending Rates

The weighted average prime lending rate fell by 55 basis points to 17.0 per cent, while maximum lending rate rose by 50 basis points to 31.15 per cent in 2018, compared with 17.52 and 30.65 per cent, respectively in 2017.

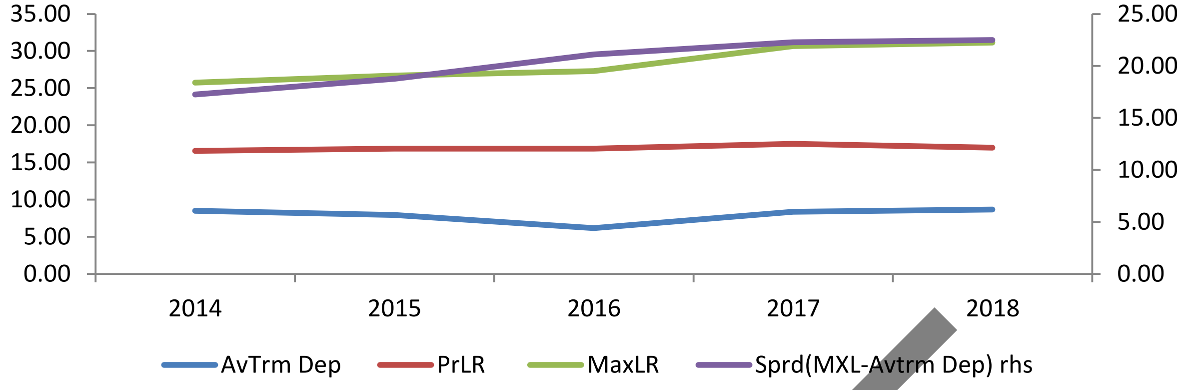
Figure 2.2: Average Savings, Prime and Maximum Lending Rates, 2014 - 2018



Source: CBN

Consequently, the spread between the average term deposit and maximum lending rates widened marginally to 22.49 percentage points, in the review year, from 22.26 percentage points in 2017.

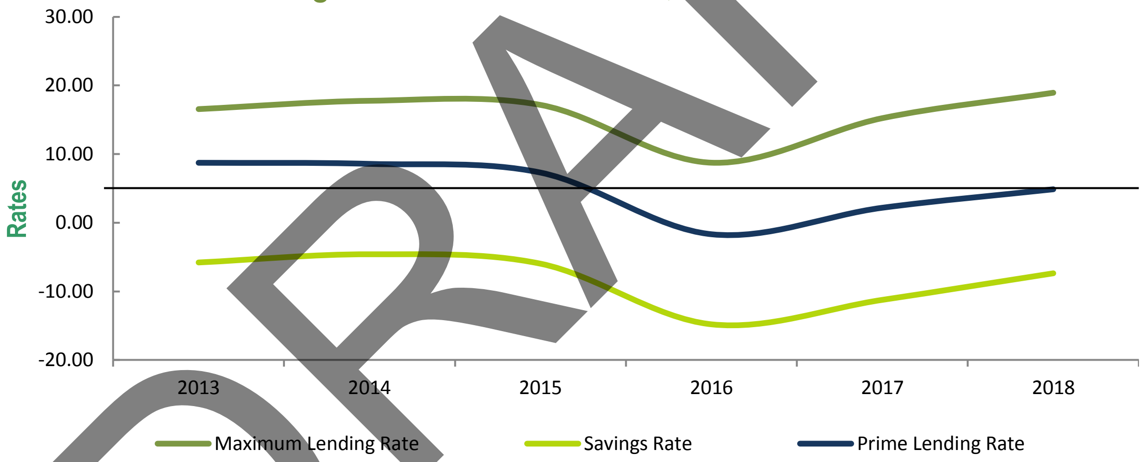
Figure 2.3: Spread Between the Average Term Deposit and Maximum Lending Rates, 2014-2018



Source: CBN

With the headline year-on-year inflation at 11.44 per cent at end-December 2018, all the deposit rates were negative in real terms, while the prime and maximum lending rates were positive.

Figure 2.4: Real Interest Rates, 2013 - 2018



Source: CBN

2.1.4 Developments in the Payments System

To consolidate the progress achieved in modernising the payments system, the Bank continued with the implementation of existing initiatives and introduced new ones. The major activities in the review period were as follows:

2.1.4.1 The Bank Verification Number (BVN) Scheme

Implementation of the Framework for BVN operations and Watch-list continued during the review period. At end-December 2018, a total of

36,170,176 customers had been registered under the Scheme, with 49,318,972 accounts out of 71,214,706 active customer accounts linked with BVN.

2.1.4.2 Nigeria electronic Fraud Forum (NeFF)

The Forum remained focused on achieving its mandate of:

- Educating and informing all Banks and other stakeholders on various electronic fraud issues and trends (both locally and globally);
- Proactively sharing fraud data/information amongst banks and service providers, to enable prompt responses to prevent fraud-related cases; and
- Developing cohesive and effective fraud and risk management strategies, and defining key requirements relating to e-payment security on behalf of the industry.

In view of the above, many stakeholder engagements were held to tackle ineffective e-product design and account management in the industry. The engagements further helped in shaping the fight against e-fraud in Nigeria leading to consistent reduction in fraud losses in the country.

2.1.4.3 Authorised Signature Verification Portal

The uploading and updating of signatories, verification of mandates and signatories management in the industry continued during the review period. The Bank conducted training for stakeholders on the use of the Portal.

2.1.4.4 Accreditation of Cheque Printers

The Bank, in collaboration with the MICR Technical Implementation Committee (MTIC), conducted biennial accreditation of Cheque Printers in Nigeria for 2018. The five (5) existing accredited security printing companies, namely: Nigeria Security Printing and Minting Company Plc, Tripple Gee and Company Plc, Superflux International Limited, Papi Printing Company Limited and Euphoria Group Limited, maintained their accreditation. Two (2) new security printing companies, KAS Arts Service Limited and Yalliam Press Limited, were accredited during the year, bringing the total number of accredited cheque printers in Nigeria to seven (7).

2.1.4.5 Nigerian Cheque Standards (NCS) and Nigerian Cheque Printers Accreditation Scheme (NICPAS)

The Bank approved the revised Nigeria Cheque Standards and Nigeria Cheque Printers Accreditation Scheme, to improve the safety and efficiency of the clearing system. Notable changes in the revised Standards include introduction of QR code for faster verification of cheque details, expiry date of printed cheque booklet and clear zone at the back of the cheque. The new and old cheque standards would run concurrently till August 1, 2020. Subsequently, only cheques that conform with the new standards would be allowed in the clearing system.

2.1.4.6 Cheque Standard Administration

In furtherance of the Bank's efforts to promote the Cheque Standard Administration, 1,665 sample cheques were processed compared with 290 in 2017. The significant increase was due to **special analysis** of sample cheques printed under the newly approved 2nd edition of the Nigeria Cheque Standard (NCS) and Nigeria Cheque Printers Accreditation Scheme (NICPAS).

The sample cheques were made up of 1,585 cheques, received from accredited cheque printers for image testing and analysis, while 80 were personalised cheques, from DMBs for MICR quality tests and analysis. The quality assurance test was to ascertain compliance level of the accredited cheque printers and the personalisers with the Nigeria Cheque Standard (NCS).

2.1.4.7 Upgraded of Nigerian Automated Clearing System (NACS)

In 2018, the Nigeria Automated Clearing System (NACS), which was upgraded to iTeller CH in 2017, operated seamlessly. Similarly, the Bank, in collaboration with NIBSS conducted a workshop on cheque truncation to acquaint users with changes in the upgraded system.

2.1.4.8 Electronic Payments Incentive Scheme (EPIS)

The Electronic Payments Incentive Scheme (EPIS) continued in the year under review. Approval for the redesign of the Point-Based Loyalty Scheme was granted. Many banks paid out cashback rewards to customers who used their cards to perform electronic transactions.

2.1.4.9 Temenos Connect Internet Banking (TCIB)

To improve the operations of the Treasury Single Account (TSA), the Bank deployed the Temenos Connect Internet Banking (TCIB) on the T24 core banking application for the use of external customers. It is a product aimed at efficient service delivery for the Banks' customers, particularly the Federal Government and its various agencies. It also enables local currency funds transfer, viewing and printing of account statement, account balances and bulk upload, among others.

The TCIB would serve not only as an alternative, but an eventual application for Government transactions. The Platform was introduced to the Office of the Accountant General of the Federation (OAGF), with a view to providing a gateway for electronic payment of the Federation Account Allocation Committee (FAAC) disbursements, initially operated through physical/manual mandates. It has also been deployed for Kaduna State Government and the Nigeria Incentive-based Risk Sharing System for Agricultural Lending (NIRSAL). The Armed Forces and the Independent National Electoral Commission (INEC) were in the process of adopting the application.

2.1.4.10 Licensing and Approval of other Payments Schemes/Products

Two (2) new operating licences were issued to payment solution service providers (PSSPs), while one (1) was renewed. A new licence was granted to payment terminal service provider (PTSP). Similarly, two (2) new licences were granted to mobile money operators and two (2) others, renewed.

The status of all categories of licences issued to players in the payment ecosystem at end-December 2018 was as follows:

Table 2.2b : Licensed Players in the Payments Ecosystem in 2018

S/N	Payment Service Providers	Number of Operators
1	Mobile Money Operators	25
2	Card Scheme	6
3	Super-Agent	3
4	Payment Solution Service Providers	13
5	Switches	8
6	Third Party Processors	4
7	Payment Terminal Service Providers	19
8	Non-Bank Acquirers	5

Source: CBN

2.1.4.11 Payments System Vision 2020 (PSV 2020)

During the review period, the following guidelines, regulations and circular were issued towards the implementation of the Payments System Vision 2020 Strategy Document (Release 2):

- Guidelines on Regulations on Instant (Inter-Bank) Electronic Funds transfer Services in Nigeria;
- Regulatory Framework for the use of Unstructured Supplementary Service Data (USSD) for Financial Services in Nigeria;
- Regulations for Bill Payments in Nigeria; and
- A circular on the statements of payment finality for the four (4) payment schemes (RTGS, Card, Mobile and ACH, Cheque & Instant Payments) in Nigeria. These statements defined the specific point at which payments are deemed to be final and irrevocable, such that the principle of 'unwind', cannot be invoked.

Other activities included:

- Review of Nigeria Bankers' Clearing System Rules 2018;
- Review of Regulations for the Direct Debit Scheme in Nigeria 2018;

- Engagement with the Bank for International Settlements (BIS), for a more active role for Nigeria in its activities; and
- Further review of the Regulations on Banking Operations in the Free Zones in Nigeria, to address the concerns raised by banks operating in the zones.

2.1.4.12 e-Payment Transactions

The volume and value of electronic payments in 2018 rose by 38.4 and 34.0 per cent to 2,046.4 million and ₦133,042.2 billion, respectively, compared with 1,478.5 million and ₦99,292.3 billion in 2017. The rise was attributed to increased consumer awareness and confidence in the e-payment channels.

Table 2.3 : Breakdown of e-Payment Transactions in 2018

Channels	Volume	Value (₦)	Proportion in Volume (Per cent)	Proportion in Value (Per cent)
NEFT	26,760,852	11,030,961,545,925.40	1.31	8.29
ATM	875,519,307	6,480,085,899,670.37	42.78	4.87
POS	295,890,167	2,383,108,901,148.12	14.46	1.79
INTERNET(WEB)	50,815,901	404,600,990,712.52	2.48	0.30
MMO	59,858,632	1,236,053,815,632.65	2.93	0.93
NIP	663,124,139	80,423,025,698,377.30	32.41	60.45
m-CASH	229,328	1,198,731,322.12	0.01	0.00
EBILLSPAY	1,053,342	500,214,507,607.64	0.05	0.38
REMITA	44,461,846	18,495,987,427,570.80	2.17	13.90
NAPS	27,384,756	12,078,905,639,559.80	1.34	9.08
CENTRAL PAY	1,260,380	8,101,555,613.41	0.06	0.01
TOTAL	**2,046,358,650**	**133,042,244,713,140.00**	**100.00**	**100.00**

Source: CBN

2.2 CURRENCY OPERATIONS

2.2.1 The Issuance of Legal Tender Currency

The Bank approved an indent of 3,351.34 million pieces of banknotes of various denominations. This was 25.3 per cent higher than the level in the preceding year. The Nigerian Security Printing and Minting (NSPM) PLC was awarded the contract for the production of the entire indent. The NSPM Plc delivered 2,653.31 million pieces or 79.2 per cent of the total, with an outstanding balance of 698.03 million at end-December 2018. In addition, the Company, under a domestication arrangement, delivered 22.89 million pieces of the ₦100 commemorative centenary banknote awarded to Crane Currency Sweden in 2014. At end-December 2018, a cumulative sum of 992.50 million pieces or 99.3 per cent had been delivered.

The CBN continued its currency processing and sorting activities in 2018. Consequently, the Bank's clean notes policy was sustained through: the production of new banknotes; processing of banknotes into clean (fit) and (unfit) dirty notes; the withdrawal of unfit/soiled banknotes; and the re-issuance of clean (fit) notes into circulation, as well as, the reduction in cycle time of processing unsorted currency banknotes deposits by banks from six (6) to three (3) months.

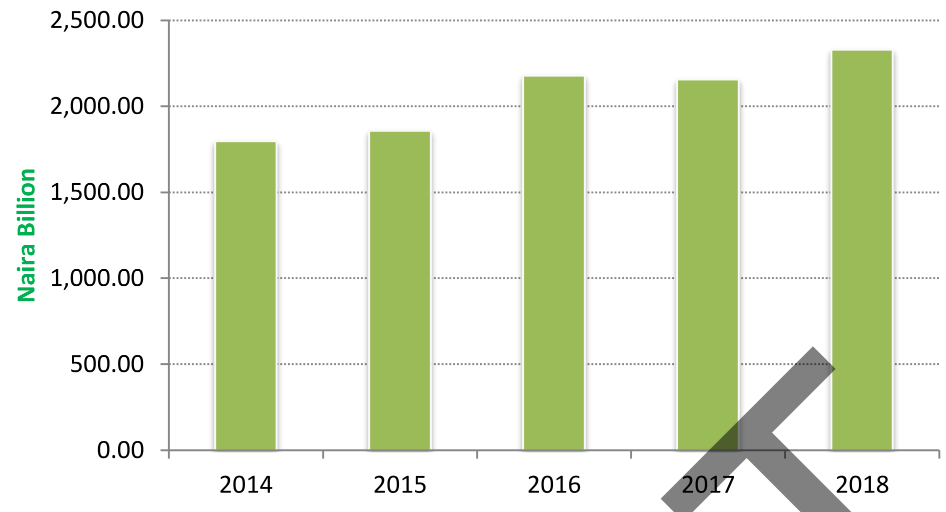
The Bank adopted the tiered pricing mechanism aimed at encouraging banks to deposit lower denomination banknotes with the CBN and forestall the re-circulation of unfit banknotes. Accordingly, a three-month window was introduced during which the surcharge was reduced from ₦12,000 to ₦1,000 per box for deposit of unsorted lower denomination currency banknotes (₦5, ₦10, ₦20, and ₦50) and at the expiration, ₦2,000 per box. However, the surcharge for the deposit of the higher denominations currency banknotes (₦100, ₦200, ₦500 and ₦1000) was retained at ₦12,000 per box.

Furthermore, in pursuit of the clean notes policy, the public was enlightened on how to identify the basic security features to deter counterfeiting, proper handling habits to forestall abuse/aid banknotes longevity, dangers and consequences of sale of the naira, hoarding and counterfeiting of the banknotes and the attendant consequences. Section 21(4) of the CBN Act 2007 provides that the sale/abuse of naira in any form shall attract payment of ₦50, 000 or six months imprisonment or both, while Section 20 states that counterfeiting shall attract a minimum of 5 years imprisonment without any option of fine. To curb the incidences of counterfeiting, illegal sale and other forms of abuse of the legal tender currency, the Bank sustained publicity campaigns, collaborated with security agencies and arrested 53 suspected offenders with the sum of ₦21,754,565.00 confiscated as exhibits. In an effort to ease retail transactions amongst economic agents, the Bank, under a special intervention scheme, collaborated with banks and exchanged lower denominations for various market associations, merchants, supermarkets, through their respective banks. To forestall abuse, sale and ensure the banknotes exchanged were utilised in line with the objectives of the scheme, the CBN used the banknote processing systems (BPS) C1, that has functional capacity to record banknotes serial numbers and also link them specifically to currency boxes, before issuance to banks for onward exchange to the identified beneficiaries.

2.2.2 Currency-in-Circulation (CIC)

Currency-in-Circulation (CIC) grew by 0.8 per cent to ₦2,329.7 billion at end-December 2018. The growth in CIC reflected the increased use of cash in the economy. A breakdown of the CIC indicated that, in terms of volume and value, the proportion of higher denomination banknotes (₦100, ₦200, ₦500 and ₦1000), in total, rose to 44.3 and 97.6 per cent, from 41.9 and 96.9 per cent in 2017, respectively. The lower denomination currency notes continued to be preponderant in terms of volume, constituting 55.7 per cent of the total. In value terms, it constituted 2.4 per cent of the total banknotes.

Figure 2.5a: Currency-in-Circulation, 2014 - 2018



Source: CBN

Table 2.4: Currency Structure, 2014 – 2018

	2014		2015		2016		2017		2018	
Coins	Volume (million)	Value (₦ billion)	Volume (million)	Value (₦ billion)	Volume (million)	Value (₦ billion)	Volume (million)	Value (₦ billion)	Volume (million)	Value (₦ billion)
₦2	107.54	0.22	107.57	0.22	107.71	0.22	107.57	0.22	204.38	0.41
₦ 1	616.46	0.62	616.49	0.62	616.67	0.62	616.49	0.62	736.08	0.74
50k	579.95	0.29	580.07	0.29	580.24	0.29	580.07	0.29	681.48	0.34
25k	348.23	0.087	348.23	0.087	348.23	0.09	348.23	0.09	348.25	0.09
10k	315.55	0.032	315.57	0.032	315.57	0.03	315.57	0.03	315.58	0.03
1k	31.24	0.003	31.24	0.003	31.24	0.01	31.24	0.0003	31.372	0.0003
Sub Total	**1,998.97**	**1.25**	**1,999.17**	**1.25**	**1,999.66**	**1.26**	**1,999.17**	**1.25**	**2,317.14**	**1.61**
Notes										
₦1000	1,068.93	1,068.93	1,011.64	1,011.64	1,224.08	1,224.08	1,228.84	1,228.84	1,297.52	1,297.52
₦500	1051.75	525.88	1,322.26	661.13	1,453.93	726.96	1,316.57	658.28	1,597.99	798.99
₦200	569.16	113.83	401.63	80.33	559.11	111.82	664.46	132.89	562.9	112.58
₦100	426.34	42.63	558.95	55.89	629.04	62.9	705.59	70.56	641.25	64.12
₦50	327.68	16.38	388.18	19.41	365.27	18.26	608.25	30.41	449.42	22.47
₦20	956.74	19.13	1,065.56	21.31	1,189.44	23.79	1,058.81	21.18	1,097.84	21.96
₦10	746.02	7.46	549.54	5.49	749.51	7.49	1006.82	10.07	797.68	7.98
₦5	496.74	2.48	299.64	1.49	521.58	2.61	752.15	3.76	494.89	2.47
Sub-Total	**5,722.52**	**1,796.72**	**5,597.40**	**1,856.69**	**6,691.96**	**2,177.91**	**7,341.49**	**2,155.99**	**6,939.49**	**2,328.09**
Total	**7,705.89**	**1,797.97**	**7,596.57**	**1,857.94**	**8,691.62**	**2,179.17**	**9,340.66**	**2,157.24**	**9,256.63**	**2,329.70**

Source: CBN

2.2.3 Clean Notes Policy and Banknote Fitness Guidelines

The Bank approved the issuance of the clean notes policy and banknote fitness guidelines to be used by major cash handlers such as banks, microfinance banks, service providers, and the public, among others. The clean notes policy encapsulates diverse currency management activities with defined processes and procedures for implementation by all the stakeholders across the currency management value-chain with a view to ensuring sustained supply and circulation of clean notes. It requires that the production, issuance of new notes and recirculation of used banknotes by banks/CPCs must conform with CBN set/defined standards. It also aims at ensuring that the quality of banknotes in circulation must be in good condition to allow for processing and free acceptability by the general public. The policy document clearly displays features on the obverse and reverse of the banknotes; and states the responsibility for issuance, recirculation, processing, handling, counterfeits and mutilated banknotes management, as well as standards for banknotes processing by currency management stakeholders across the industry value chain.

The banknote fitness guidelines provide stakeholders and the general public with clear, uniform acceptable criteria for determining the good quality and removal of unfit banknotes in circulation. It shows the quality standards/stages through print appearance(s), details the banknotes degradation by soiling, limpness and thus, defines the acceptable threshold for (fit) clean and (unfit) dirty banknotes. The guidelines also provide pictorial classifications of ATM fit notes, Teller fit and unfit banknotes as a guide to the currency handlers, users and key stakeholders to effectively manage the banknotes.

The two policy documents were produced by the Bank in collaboration with key industry stakeholders, including Cash-in-Transit Companies (CITs), banks and Currency Processing Companies (CPCs). The non-compliance with the provisions therein shall be sanctioned according to the relevant sections of the CBN Act 2007, Banks and Other Financial Institutions Act (BOFIA) and other relevant regulations/guidelines by the CBN.

2.2.4 The Nigeria Cash Management Scheme (NCMS)

The Bank sustained its cash management policy under the Nigerian Cash Management Scheme. The Scheme leverages the shared services platform to reduce the cost of currency management. Thus, the Bank intensified its efforts at reducing the cost of currency management. These included: the review/update of request for proposal (RFP) for the integrated cash management platform in line with contemporary technological developments; raising the capacity of Cash–in–Transit (CIT)/Cash Processing Companies (CPC) by encouraging regional participation; providing exit options for the Bank and the management of human and material options; and developed/carried out user acceptance test (UAT) and deployed CBN Cash Application Reporting Portal (CARP). The CBN's CARP application had gone live and commenced the transmission of data on its Currency Management activities to the industry coordinator, NIBSS. The CARP, a stop gap solution for integrated management platform, was designed to provide, credible currency management data from the CBN, banks, and CITs/CPCs. Twenty (20) banks had integrated their CARP application solutions, enabling transmission of currency management data to NIBSS, while others were in the process of linking-up with NIBSS. At end-December 2018, the Bank had registered eight (8) CITs operators, two (2) of which have been granted Cash Processing Licences.

2.2.5 Sustainable Disposal of Banknote Waste

To ensure compliance with Nigerian Sustainable Banking Principles (NSBP), the CBN collaborated with some recycling companies and sustained efforts to promote sustainable waste management in currency disposal. An in-depth chemical analysis of polymer wastes was carried out with a view to mitigating the Bank's carbon foot prints. Following this, was a pilot run of recycling polymer wastes into re-usable products such as pallets, chairs, dustbins, flower pots, among others, etc., by some recycling companies. The outcome showed that polymer waste was cost effective and another income stream to meet the Bank's corporate social responsibility (CSR).

2.2.6 Authentication & Processing of Foreign Currency Deposit by Banks

The Bank continued with the policy of processing and authentication of foreign currency deposits by banks during the review period. This was carried out through the receipts, processing and authentication of excess dollar deposits by banks with Lagos Branch at a handling charge of 0.03 per cent of the total deposit. To make the operation seamless, the Bank issued a circular to banks to classify their US$ deposits into OLD and NEW series prior to deposit at CBN Lagos Branch. A total of US$7.44 billion was processed as at December 31, 2018, and the sum of ₦6.82 billion was generated.

2.2.7 Automation and Modernisation of Currency Management

In a bid to minimise human intervention, usher a regime of more efficient and secured cash handling in line with the Bank's vision, and conform to best practice in currency management operations, the Bank commenced processes for the deployment of an end-to-end solution for integrated cash handling management at its branches.

The implementation would be on a pilot basis starting with three (3) branches namely: Asaba; Abuja; and Abeokuta where the conveyor belt system had earlier been installed and would be replicated in other branches of the Bank. The Scheme would provide seamless integration with the existing conveyor system and other cash infrastructure for optimal currency management.

2.3 FOREIGN EXCHANGE MANAGEMENT

2.3.1 Foreign Exchange Market and Management

The foreign exchange market witnessed increased demand pressure, especially in the second half of 2018, on account of capital flow reversal, precipitated by the normalisation of interest rates in advanced economies, particularly the US and perceived political uncertainties in the wake of the 2019 general elections. The CBN sustained its intervention in the foreign exchange market and adopted various measures to promote stability of the naira and engender a stable macroeconomic environment. The Bank abolished commission on retail foreign exchange transactions on invisible services, such as business travel allowance (BTA), personal travel allowance (PTA), medical and school fees.

The Bank also adjusted downward, the selling rate of foreign exchange to Bureaux de Change (BDCs) operators and increased the frequency of its interventions in the other windows, to ease access and availability of foreign exchange to end-users. The Bank, on April 27, 2018, signed a 3-year bilateral currency swap agreement of US$2.5 billion - equivalent to ¥15.0 billon or ₦720.0 billon- with the Peoples Bank of China (PBoC), as of the effort to reduce foreign exchange demand pressure and facilitate investment between Nigeria and China. Furthermore, the Bank added fertilizer to the list of "items not valid for foreign exchange" in the official market, bringing the total number of items to 42.

The stability in the foreign exchange market sustain into 2018, on account of the foreign exchange management measures implemented by the Bank. Thus, the premium between the average interbank and BDC rates narrowed significantly to 18.1 per cent in 2018, compared with 29.3 per cent in 2017. Similarly, the premium between the BDC and I&E rates narrowed to 0.1 per cent in 2018, compared with 7.9 per cent in 2017.

2.3.2 Foreign Exchange Flows

Aggregate foreign exchange inflow into the economy increased by 34.7 per cent to US$122.60 billion, compared with US$91.00 billion in 2017. A breakdown showed that inflows through the CBN and autonomous sources, constituted 48.3 and 51.7 per cent, respectively, of the total, compared with 46.3 and 53.7 per cent in 2017.

A further analysis indicated that foreign exchange inflow through the CBN, increased to US$59.25 billion, compared with US$42.17 billion in 2017. A breakdown of foreign exchange inflow through the CBN, showed that earnings from crude oil export rose by 44.9 per cent to US$15.03 billion, above the US$10.37 billion in the preceding year. This was due to increase in both price and production of crude oil, compared with the levels in 2017. The non-oil component of the inflow through the Bank increased by 39.0 per cent to US$44.22 billion, compared with US$31.80 billion in 2017. The development was attributed mainly to 110.3, 116.3 and 46.0 per cent increase in TSA & third party receipts, interbank swaps and other official receipts to US$8.77 billion, US$6.33 billion, and US$3.62 billion, respectively. A further breakdown of non-oil inflow showed a receipt of US$8.78 billion as foreign exchange purchases; banks cash receipts, US$5.50 billion; government debt proceeds, US$5.37 billion; unutilised funds from foreign exchange transactions, US$2.06 billion; and returned payments (wired/cash), US$1.50 billion. Interest earnings on reserves and investments, and return of unutilised International Money Transfer operators funds were US$0.77 billion and US$1.52 billion, respectively.

Inflow through autonomous sources increased by 29.8 per cent to US$63.36 billion, compared with US$48.83 billion in 2017. A breakdown showed that invisible transactions was US$58.98 billion; non-oil export receipts by banks, US$4.33 billion; and external account purchases, US$0.04 billion, constituting 93.1, 6.8 and 0.1 per cent, respectively, of the total. Of the invisibles, over-the-counter (OTC) purchases and domiciliary account were US$39.85 billion (67.6%) and US$19.13 billion (32.4%), respectively. A further breakdown of OTC purchases showed that: capital importation stood at US$16.60 billion; other OTC purchases, US$21.07 billion; oil companies, US$0.43 billion; and home remittances, US$1.76 billion.

Aggregate foreign exchange outflow from the economy during the review period rose by 80.9 per cent to US$60.92 billion, compared with US$33.68 billion in the preceding year. Of this, outflow through the CBN constituted 92.5 per cent of the total, while autonomous sources accounted for the balance of 7.5 per cent. Foreign exchange outflow, through the CBN, rose by 84.4 per cent to US$56.33 billion, compared with US$30.55 billion in the preceding year. The development was due, largely, to increased intervention by the CBN in the foreign exchange market and other official payments. Foreign exchange supply to the market amounted to US$38.14 billion of which: inter-bank forwards, US$12.90 billion; inter-bank sales, US$5.90 billion; BDC sales, US$8.83 billion; matured swaps contract, US$4.58 billion and I&E sales, US$5.93 billion.

A further breakdown of foreign exchange outflow, through the Bank, showed that other official payments rose by 86.4 per cent to US$10.12 billion, compared with US$5.43 billion in 2017. This was attributed to 142.3 and 22.2 per cent increase in miscellaneous payment and Joint Venture Company (JVC) cash calls to US$7.23 billion and US$2.70 billion, respectively, compared with the levels in the preceding year. However, estacode payments fell by 21.0 per cent to US$0.18 billion, compared with US$0.23 billion in 2017. External debt service was US$1.45 billion, 3rd party MDA transfers, US$5.49 billion; and drawings on letters of credit, US$0.41 billion, indicating increases of 243.2, 104.0 and 15.2 per cent, over their respective levels in 2017. Funds returned to remitters was US$0.41 billion; foreign exchange special payment, US$0.26 billion; Bank and SDR charges, US$0.03 billion; and National Priority Projects, US$0.01 billion.

Outflow through autonomous sources rose to US$4.58 billion, indicating an increase of 46.6 per cent, over the level in 2017. Payments for invisibles amounted to US$3.65 billion, representing 79.7 per cent of the total autonomous outflow, while import, at US$0.93 billion, accounted for the balance of 20.3 per cent.

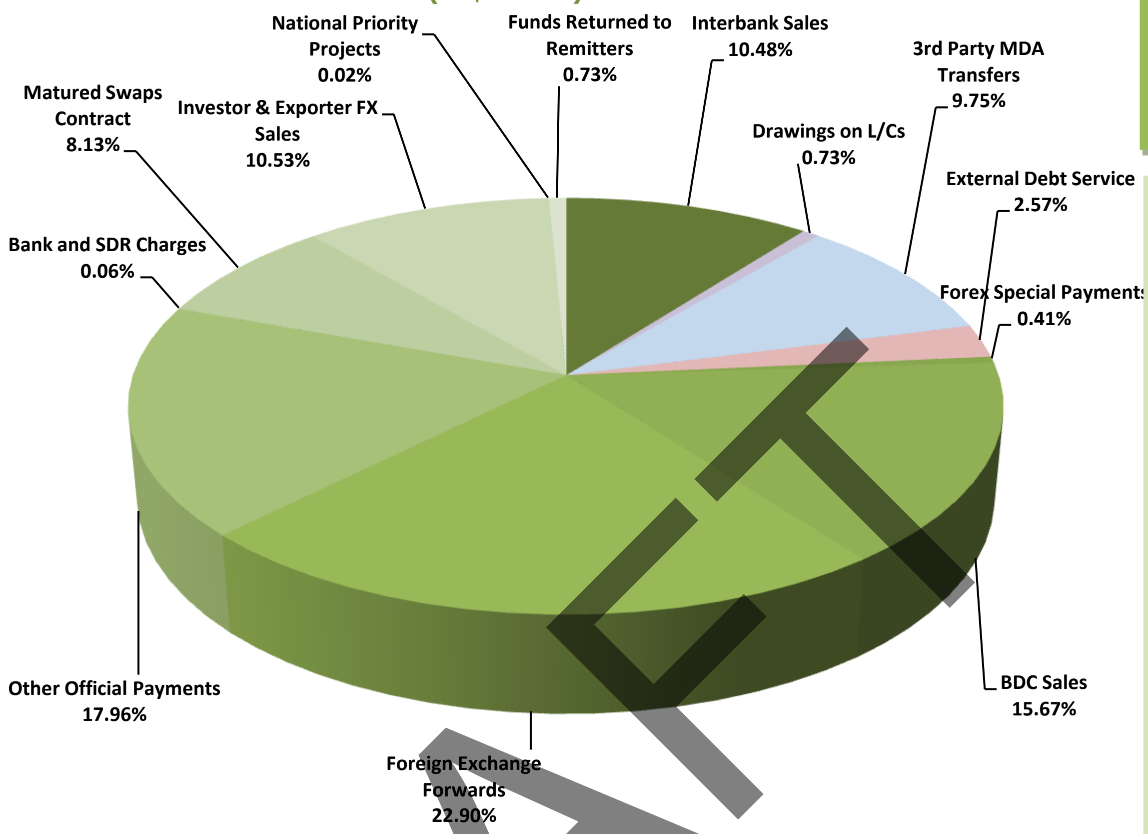
Overall, the economy in 2018 recorded a net inflow of US$59.25 billion, compared with US$57.32 billion in 2017, of which that of the CBN was US$2.91 billion, compared with US$11.62 billion in 2017.

Table 2.5: Foreign Exchange Flows through the Economy (US$' Million), 2017 – 2018

CATEGORY	2017 /2	2018 1/
INFLOW	90,997.87	122,601.85
A. Inflow through the Central Bank	42,172.14	59,246.37
1. Oil	10,369.18	15,026.53
2. Non-oil	31,802.96	44,219.83
B. Through Autonomous Sources	48,825.73	63,355.49
1. Non-oil Export	2,528.53	4,330.06
2. External Account Purchases	89.60	42.78
3. Invisibles	46,207.60	58,982.64
(a) **Ordinary Domicilliary Accounts**	19,830.62	19,134.78
(b) **Total OTC Purchases**	26,376.98	39,847.87
(i) Oil Companies	1,703.09	429.28
(ii) Capital Importations	12,404.09	16,595.35
(iii) Home Remittances	1,103.55	1,756.61
(iv) Other OTC Purchases	11,165.92	21,066.63
OUTFLOW	33,679.37	60,916.85
A. Through the Central Bank	30,552.77	56,332.60
1. **Interbank Utilisation**	21,405.79	38,141.51
(i) Investor & Exporter FX Sales	-	5,930.23
(ii)Inter-bank-FWD	10,535.98	12,900.72
(iii) BDC Sales	4,158.60	8,826.81
(iv) Inter-bank Sales	5,600.06	5,903.16
(v) Swaps	1,111.15	4,580.60
2. Drawings on L/Cs	358.25	412.59
3. External Debt Service	422.49	412.59
(i) Principal		1,450.13
(ii) Interest		
(iii) Others /3	422.49	1,450.13
(iv) Professional fees/Commission		
4. Govt. and International/Contributions, Grants&Equity Invests. (AFC Equity Participation)	29.99	
5. National Indpt Priority Projects (NIPP)	2.58	13.08
6. Forex Special Payments (Cash Swap/FX Advance to MDAs)	123.71	263.29
7. Other Official Payments	5,429.05	10,118.07
(i) Int'l Organisations & Embassies /4		
(ii) Estacode	229.80	181.43
(iii) Parastatals (Public sector uses)		
(iv) Joint Venture Company (JVC) Cash Calls	2,214.10	2,704.92
(v) Miscellaneous	2,985.15	7,231.72
8. Bank & SDR Charges	9.74	34.17
9. Funds returned to remitters	86.97	409.35
10. 3rd Party MDA Transfer	2,684.19	5,490.42
B. Through Autonomous Sources	3,126.60	4,584.25
1. Imports	585.68	933.97
2. Invisibles	2,540.92	3,650.28
NET FLOW THROUGH THE CBN	11,619.37	2,913.76
NET FLOW	57,318.50	59,246.37

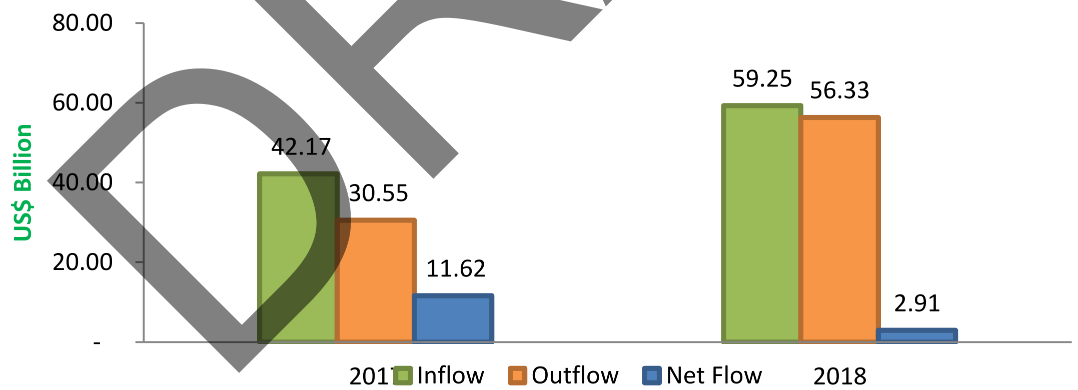
1/ Provisional
2/ Revised
Source: CBN

Figure 2.6: Foreign Exchange Disbursement through the CBN, 2018 (US$' Billion)



Source: CBN

Figure 2.7: Foreign Exchange Flows through the CBN, 2017-2018 (US$'billion)



Source: CBN

2.3.3 Developments in the Foreign Exchange Market

The foreign exchange market was relatively stable in the first half of 2018 on account of the robust foreign exchange supply and measures adopted by the Bank. In the second half of 2018, the market, however, witnessed renewed demand pressure, due mainly to capital flow reversal, induced by the normalisation of interest rates in the US and perceived political risk ahead of the 2019 general elections. Consequently, the Bank sustained intervention in the market and adopted other policy measures, to boost liquidity and restore the relative stability in the market.

The amount of foreign exchange disbursed for payments of matured forwards contracts increased to US$12.9 billion, compared with US$10.54 billion in 2017. Similarly, sales to BDC operators and interbank rose to US$8.83 billion and US$5.90 billion in 2018, above their respective levels of US$4.16 billion and US$5.6 billion in 2017. Matured swaps contract increased significantly by 312.2 per cent to US$4.58 billion, compared with US$1.11 billion in 2017. Furthermore, the Bank sold US$5.93 billion at the I&E window in 2018. Thus, the total supply of foreign exchange by the Bank increased by 78.2 per cent to US$38.14 billion, compared with US$21.41 billion in 2017. The development boosted liquidity and stabilised the naira exchange rate during the period.

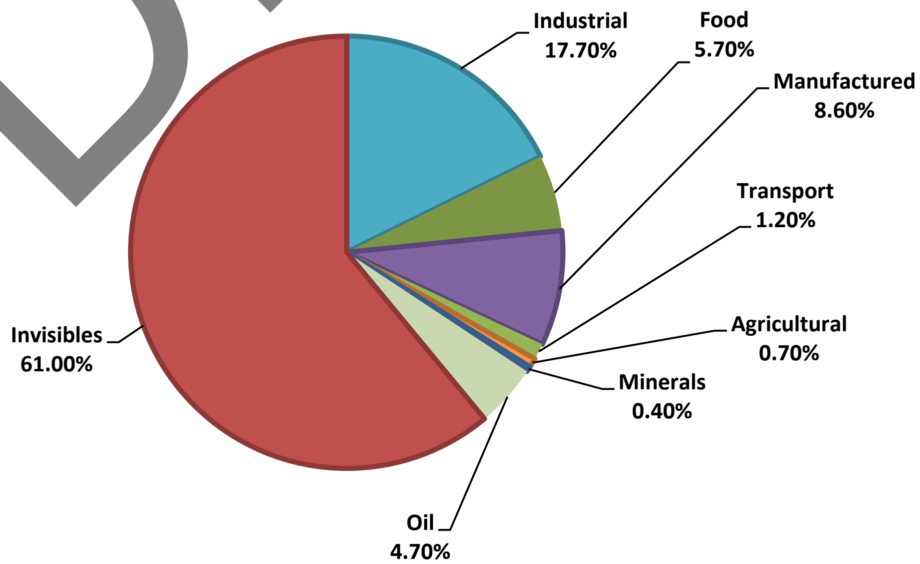
2.3.4 Sectoral Utilisation of Foreign Exchange

Aggregate sectoral utilisation of foreign exchange increased by 48.0 per cent to US$40.91 billion in 2018, compared with US$27.64 billion in 2017. A disaggregation of foreign exchange utilisation showed that invisible trade rose by 100.0 per cent to US$24.96 billion, representing 61.0 per cent of the total, compared with US$12.48 billion in 2017. The value of visible import also increased by 5.2 per cent to US$15.94 billion, from US$15.16 billion in 2017, and accounted for 39.0 per cent of the total.

A disaggregation of visible imports showed that foreign exchange utilisation in the industrial, food products, manufacturing, transport and mineral sub-sectors rose by 4.1, 53.4, 58.6, 16.0 and 100.6 per cent, to US$7.26 billion, US$2.32 billion, US$3.54 billion, US$0.47 billion and US$0.16 billion, respectively, from the levels in 2017. However, foreign exchange utilisation in the agricultural and oil sub-sectors fell by 2.6 and 47.9 per cent, below their respective levels in the preceding year to US$0.29 billion and US$1.91 billion, in 2018.

A breakdown of invisible import showed that foreign exchange utilisation for the financial services increased significantly by 120.7 per cent to US$19.23 billion in 2018, compared with the level in 2017. Similarly, foreign exchange utilised for business, transport and educational services rose by 164.0, 31.4 and 6.5 per cent, above their respective levels in 2017, to US$3.36 billion, US$1.14 billion and US$0.55 billion. However, foreign exchange utilisation in the construction & related engineering services, distribution services, and health-related and social services, fell by 31.8, 60.2, and 43.7 per cent to US$0.68 million, US$12.02 million, and US$1.21 million, respectively, below the levels in the preceding year. Similarly, foreign exchange utilised in respect of communication services, tourism and travel-related services, and "other services" declined by 11.6, 63.0 and 43.2 per cent to US$207.17 million, US$40.44 million and US$414.55 million in 2018, compared with the level in 2017. Utilisation for recreational, cultural and sporting activities accounted for the balance.

Figure 2.8: Sectoral Utilisation of Foreign Exchange, 2018

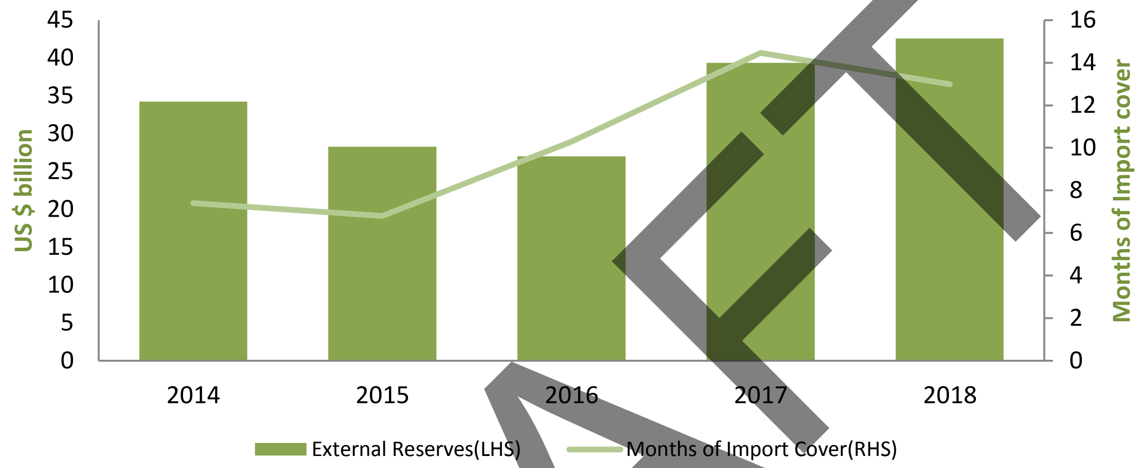


Source: CBN

2.3.5 External Reserves

External reserves at end-December 2018 stood at US$42.59 billion, showing an increase of 8.2 per cent, compared with US$39.35 billion at end-December 2017. This was due, largely, to increase in oil-related revenues, foreign exchange purchases, TSA and third party receipts, interbank swaps and proceeds from government external borrowing.

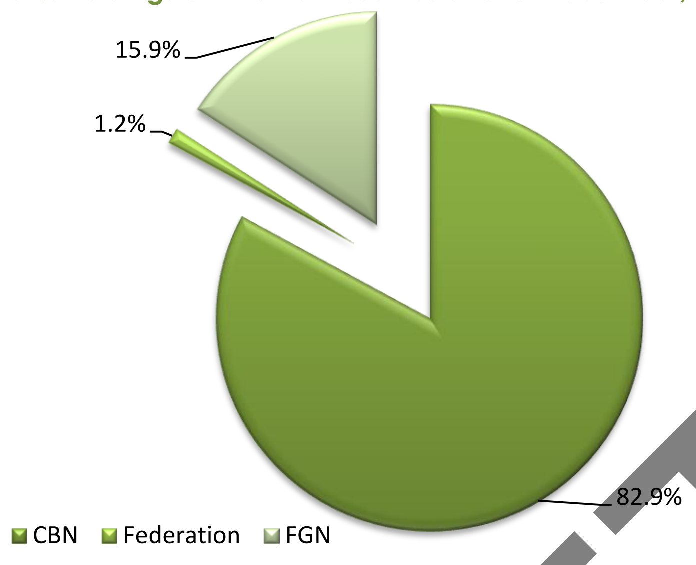
Figure 2.9: Gross External Reserves Position and Months of Import Cover, 2014 – 2018



Source: CBN

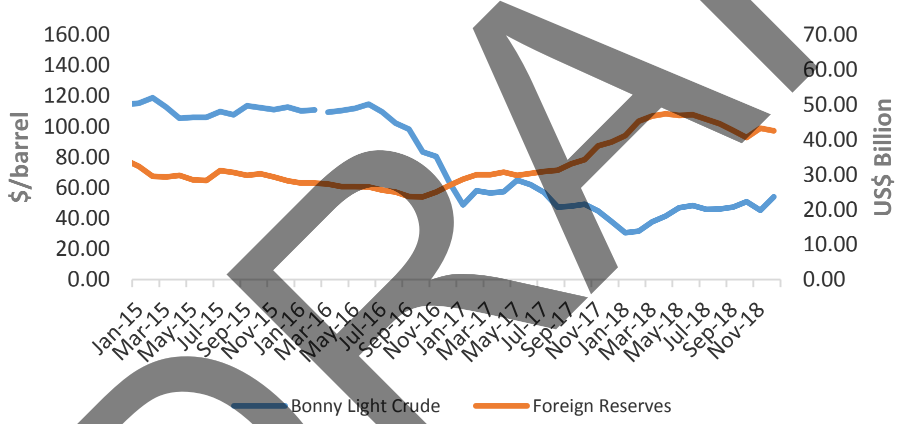
A disaggregation of external reserves by ownership at end-December 2018 showed that the share of the CBN, Federal Government and Federation stood at US$35.32 billion, US$6.79 billion and US$0.48 billion, respectively, representing 82.9, 15.9 and 1.2 per cent of the total. The external reserves could finance 13.0 months of import (goods only) or 7.5 months of import (goods and services) at end-December 2018, compared with 14.5 months of import (goods) or 9.3 months of import (goods and services) at end-December 2017.

Figure 2.10: Holdings of External Reserves at end-December, 2018, (Per cent)



Source: CBN

Figure 2.11: External Reserves Position and Crude Oil Price, 2015-2018



Source: CBN

The Net Asset Value of the entire fixed income portfolio managed by the external asset managers stood at US$6.99 billion. The portfolio yielded an absolute return of about US$581 million, since inception to December, 2018. It however, recorded an aggregate underperformance of 3 bps below the composite benchmark.

Aggregate earnings from the management of external reserves in 2018 amounted to ₦257.96 billion (US$845 million), an increase of 231.8 per cent, above ₦77.74 billion in 2017. This also represented an increase of ₦181.93 billion or 239.3 per cent over the budgeted amount of ₦76.02 billion in the review year. The increase was due, largely, to reserves accretion and the sustained rise in interest rates in the US.

The Bank maintained all the previous performance measures of its bonds in 2018. The performance of the World Bank US Treasury Bonds portfolio was measured against the Bank of America Merrill Lynch 1-3 years US Treasury Index. The Global Government Bonds Short-Duration (USD Hedged) portfolio was measured against the Bank of America Merrill Lynch Global Government Bond G7 1-3 year Index, ex-Italy 100% hedged into USD. The CNH portfolio was measured against the Citigroup DIM Sum off-shore CNY index. The World Bank MBS portfolio was measured against Barclays US MBS Index.

2 .4 SURVEILLANCE OF THE ACTIVITIES OF FINANCIAL INSTITUTIONS

2.4.1 Banking Supervision

The Bank continued its supervisory and surveillance activities in 2018, with a view to ensuring the safety and soundness of banking institutions, as well as, promoting public confidence in the Nigerian banking system. In this regard, it maintained the risk-based supervision (RBS) approach.

The Nigerian Banking Industry began the implementation of IFRS 9 in January 2018. This was in accordance with the final version of IFRS 9 standard on Financial Instruments by the International Accounting Standards Board (IASB). A joint CBN/NDIC IFRS 9 Implementation Project Team was constituted to pilot the implementation process. Under the new standard, credit losses are computed based on Expected Credit Losses (ECL) criteria, rather than the incurred loss (IL) model of IAS 39. It also introduced requirements for the classification and measurement of financial instruments, albeit with special focus on impairment requirements. Upon implementation of the standard in January 2018, the CBN carried out a detailed impact assessment of IFRS 9 Expected Credit Loss (ECL) model on the banking

The Bank sustained initiatives to ensure the safety, soundness and stability of banking institutions, as well as promote public confidence in the Nigerian banking system.

industry. To cushion against the likely "capital shock" in the implementation of this model, and in line with global policy response, a Transitional Arrangements Circular –"Treatment of IFRS 9 Expected Credit Loss for Regulatory Purposes by Banks in Nigeria" was issued in October 2018. The transitional arrangement requires banks to amortise the "Adjusted Day One Impact" over four (4) years. This being the excess of the ECL provisions over IAS 39 provisions after having adjusted for the balances in the Regulatory Risk Reserve (RRR) as at the transition date of January 1, 2018. The amortisation would be done using Static approach on a straight-line basis over the four-year transition period by writing back to the Tier 1 capital. The transitional period will terminate by December 31, 2021.

The electronic line card scheme, codenamed Credit Assessment Analysis System (CAAS) was deployed in 2018, as a technological approach in the evaluation of banks' credit and all examinations involving risk assets appraisal. Continuous upgrades were carried out on the software to reflect changes in standards.

In addition, the CBN continued to monitor the implementation of the Basel II/III standards to ensure regular update and improvement in its regulatory and supervisory framework to ensure that:

- Regulatory capital assessment was in line with the prescribed standards by reviewing monthly returns by banks on capital adequacy ratio (CAR) to ensure that the minimum regulatory capital reported by banks is consistent and captured all the relevant risks;

- Banks' risk management framework could assess all the risks not captured in the pillar 1 capital assessment by reviewing banks' Internal Capital Adequacy Assessment Process (ICAAP) report, to assess their strategies for taking on risk and ensure that the related capital needs are sufficient, now and into the future;

- The Supervisory Review and Evaluation Process (SREP) of the Internal Capital Adequacy Assessment Process (ICAAP) of banks was carried out during the year. The process was to enhance market discipline and to provide an independent evaluation of the quantitative and qualitative aspects of the banks' risk management practices, especially with regard to identification and assessment of material risks and adequacy of capital; and

- Pillar 2 risk capital assessment was carried out in a robust and comprehensive manner, and to improve the overall quality of the ICAAP, the CBN commenced the process of development of five (5) Pillar 2 risk guidelines on "Interest Rate Risk in the Banking Book, Credit Concentration Risk, Banks' Business Models, Reputational Risk and Stress Testing". The exposure draft was released to the industry for comments in the second half of 2018.

In the other financial institutions (OFIs) sub-sector, the on-boarding of microfinance banks (MFBs) on the National Association of Microfinance Banks Unified Information Technology (NAMBUIT) platform continued, with the selection of 111 MFBs, consisting of 1 National, 10 States and 100 Units. The list of selected MFBs was submitted to Inlaks Computers for the pilot phase. At end-December 2018, the implementation team had successfully deployed NAMBUIT in 10 MFBs, comprising 1 National and 9 Unit MFBs.

In addition, following the extended deadline of December 31, 2017 for the BVN enrollment for customers of OFIs, the CBN granted financial assistance to MFBs to purchase Data Capturing Machines (DCM) for the enrollment. At end-December 2018, a total subsidy of ₦49.2 million for the purchase of 246 DCMs at the cost of ₦200,000 each, was paid to the National Association of Microfinance Banks (NAMB) for disbursement to the beneficiary MFBs. However, there were challenges, which included: low turnout amongst MFB customers who only turned up when they required credit facilities; some banking software providers did not upgrade their platform to include BVN module as a mandatory field; and difficulties faced by NIBSS in creating and assigning roles to users. At end-December 2018, 376 out of 879 MFBs had submitted their BVN enrolment to the CBN, totaling 1.5 million and representing 19.1 per cent of the 8.2 million active customers.

To facilitate data exchange between OFIs and credit bureaux, the CBN organised training sessions on credit reporting for software vendors, compliance officers, managing directors and chairmen of Board Credit Committees of OFIs. Participants were exposed to the responsibilities of compliance officers in OFIs, with regard to disclosure of insider-related facilities and other credit information. The CBN, also, paid the sign-up fees of MFBs for connection to two (2) credit bureaux to fast-track integration into the credit reporting scheme.

In a related development, the 18th and 19th Meetings of Committee of Microfinance Banks in Nigeria (COMBIN) were held in Lagos, Abuja, and Owerri in 2018. The meetings were attended by the representatives of the CBN, the Nigeria Deposit Insurance Corporation (NDIC) and the Managing Directors of MFBs. The discussions focused on the ways to improve credit administration in the MFBs, with a view to reducing the sub-sector portfolio-at-risk (PAR) and compliance with other regulatory requirements. The highlights of the meetings were as follows:

- The comprehensive review of the regulatory guidelines and liberalisation of the current regulatory requirements to ease the burden on MFBs, such as the provisioning requirement, qualification criteria for management appointments, among others;
- The call for the introduction of a liquidity support facility similar to the CBN Discount Window for MFBs;
- The need for the establishment of an interbank market for MFBs;
- The imperative to accelerate the completion and implementation of the re-designed CRMS for OFIs to engender a good credit culture and reduce the average PAR in the industry;
- The urgency for implementation of an effective sanction regime (zero tolerance for infractions); and
- The need to accelerate the completion and implementation of the NAMBUIT and Integrated Regulatory Solution (IRS) as long-term solutions to address the challenge of data integrity and reliability.

2.4.2 Credit Risk Management System

The CBN continued to monitor banks' compliance with the requirements of the Redesigned Credit Risk Management System (CRMS), which enables early identification of predatory borrowers and ensure transparency, credibility and efficient debt profiling of the banking industry. Also, a pilot run for on-boarding Non-Interest Banks (NIBs) to the CRMS was concluded during the review year. In addition, the phased deployment of the re-designed CRMS to OFIs and the pilot run on Development Finance Institutions (DFIs) commenced. An interface for NDIC to manage credit records in respect of loans of banks in liquidation was created. Accordingly, the new CRMS continued to serve as a platform for the management of credit information in the banking industry.

At end-December 2018, the total number of credit facilities reported on the database rose significantly by 84.8 per cent to 4,976,292, from 2,692,403 in 2017. This consisted of 4,453,336 and 522,956 facilities granted to individuals and corporates, respectively, compared with 2,263,109 and 429,294 in 2017. Thus, the number of borrowers, with outstanding facilities rose by 31.6 per cent to 1,866,468 in 2018, from 1,418,081 in 2017. The significant increase reflected the back-filing of previously unreported credit following compliance status checks by the Bank and creation of new loans by participating financial institutions.

Table 2.6: Borrowers from the Banking Sector (Commercial and Merchant Banks)

Description	2017	2018	Absolute Change	% Change
Total No. of Credit/facilities reported on the CRMS:	**2,692,403**	**4,976,292**	**2,283,889**	**84.8**
• *Individuals*	2,263,109	4,453,336		
• *Corporates*	429,294	522,956		
Total No. of Outstanding Credit facilities on the CRMS:	**1,418,081**	**1,866,468**	**448,387**	**31.6**
• *Individuals*	1,322,076	1,763,960		
• *Corporates*	96,005	102,508		

Source: CBN CRMS

The number of licenced Private Credit Bureaux (PCBs) remained three (3) at end-December 2018, though the industry continued to record remarkable growth through increased awareness and acceptance. The capital base of the three (3) Credit Bureaux were above the minimum capital requirement of

₦500.0 million. At end-December 2018, the average number of records, in the database of the PCBs, was 92.3 million in 2018, reflecting 95.6 per cent increase over the 47.2 million in 2017. The number of borrowers and value of outstanding credit also increased from 15.3 million and ₦23.9 trillion in 2017, respectively, to 50.0 million and ₦63.4 trillion in 2018. The cumulative number of institutional subscribers to the three (3) PCBs stood at 2,695, compared with 1,752 in 2017. The development during the review year reflected increased credit activities and compliance, following the passage of the Credit Reporting Act in 2017.

The foremost challenge in the industry remained the integrity and quality of data provided by the subscriber institutions. To resolve this challenge, the CBN is working with the bureaux and the financial institutions towards achieving uniformity in reporting with the common data template.

2.4.3 Prudential Review and Examination

A review of banks' prudential ratios showed that the industry average capital adequacy ratio (CAR) rose to 15.3 per cent at end-December 2018, compared with 10.2 per cent at the end of December 2017 and 8.0 per cent stipulated minimum requirement for International banks under the Basel capital accord, respectively. The Industry Non-Performing Loans (NPL) ratio, at 11.4 per cent, showed an improvement from the 14.8 per cent recorded at end-December 2017. At this level, the industry NPL ratio remained significantly above the maximum regulatory threshold of 5.0 per cent. Similarly, the industry average liquidity ratio (LR), at 51.7 per cent in December 2018, compared with 45.6 per cent at end-December 2017, remained above the regulatory minimum of 30.0 per cent by 21.7 percentage points.

2.4.4 Corporate Governance in the Nigerian Financial Services Industry

To ensure adherence to the provisions of the Code of Corporate Governance for Banks, the CBN sustained the implementation of various initiatives for monitoring and assessment of compliance. In this regard, the Code of Corporate Governance Scorecard was launched in March 2017 and formed the basis for a pilot compliance examination of 18 banks, covering all categories of licences. Highlights of the findings from the exercise were:

- Three (3) banks did not have an approved strategy document, while those for some banks were not robust and comprehensive;
- Failure to assign responsibility for the implementation of approved strategy document;
- Failure by two banks to comply with the requirements of the Code on composition of the board, board meetings, subsidiary cross directorship, holding company, succession planning, remuneration policy, limits of authority and risk management;
- All banks complied with the requirements of the Code on size of the board, separation of duties and disclosure and transparency; and
- Nine (9) banks did not comply with the requirements on ethics and professionalism, as well as, rights of other stakeholders.

In addition, banks commenced rendering reports on dud cheques on the CRMS platform in 2017, in line with the circular, titled "Need to Implement Measures to Dissuade the Issuance of Dud Cheques in the Nigerian Banking System". This would facilitate the collation and analysis of data on serial dud cheque issuers, to enable the CBN take more stringent actions against them.

2.4.5 Financial Crimes Surveillance/Anti-Money Laundering

The CBN continued to follow-up with banks on the level of implementation of the recommendations of the money laundering and financing of terrorism (ML/FT) national risk assessment (NRA). In compliance with the Financial Action Task Force (FATF) recommendation on collaboration, the CBN attended the FATF plenary held in Paris, France in July 2018. During the year, the Bank also participated in the plenaries of the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA), which provided opportunities for member countries to discuss threats and challenges associated with AML/CFT within member states and to address issues that require concerted and harmonised efforts to resolve.

Furthermore, the CBN sustained the collaboration with the AML/CFT stakeholder agencies in the country on information sharing. As the Secretariat of the stakeholders Consultative Forum, the CBN hosted quarterly meetings of the Forum during the year. To ensure a more dissuasive and effective sanction regime, the CBN, in collaboration with the Office of the Attorney General of the Federation, developed and gazzetted the AML/CFT Administrative Sanction Regulation 2018. Further to the circular issued to banks and OFIs, as well as a cautionary notice to the public drawing their attention on money laundering and terrorism financing risks associated with virtual currency (VC), the CBN continued to monitor developments in the virtual currency space with a view to formulating substantive regulations to deal with the phenomenon.

The Bank conducted AML/CFT compliance examination of banks for the period April 1, 2017 to March 31, 2018. The objective of the exercise was to ascertain the level of compliance with the statutory thresholds for cash deposits of foreign and local currencies, as well as treatment of suspicious transactions. The examination also reviewed banks' compliance with CBN's directive on Dud cheques. The examination showed an overall improvement in the AML/CFT regime of many banks, as evidenced by the general reduction in infractions.

As in previous years, the examination was conducted alongside the annual foreign exchange examination, which has proven to be an efficient strategy for the management of time and resources. The AML/CFT examinations were guided strictly by statutory provisions of the Money Laundering Prohibition Act, 2011 (as amended) and the CBN's AML/CFT Regulations 2013.

2.4.6 Routine, Special and Target Examinations

The CBN/NDIC Joint Risk Assets Assessment of all the banks was conducted to determine the quality of banks' assets and the adequacy of loan loss-provisioning, required for "no objection" for the publication of banks' 2017 audited annual financial statements. The first tranche of the CBN/NDIC Joint Risk Based Examination, covering fifteen (15) banks with a Composite Risk Rating (CRR) of "High" and "Above Average" was carried out in July 2018, while the examination of the three (3) financial holding companies also commenced in the same period. Following the conclusion of the exercise, two (2) banks were upgraded from risk ratings of "Above Average" to "Moderate" risk and one (1) bank's rating improved from "High" risk to "Above Average".

The risk based examination of eleven (11) banks with Composite Risk Ratings (CRR) of "Moderate" and "Low" for the period ended 30th September, 2018 was conducted between October and November 2018. The Risk Based Examinations (Monitoring and Routine) of the three (3) Credit Bureaux and AMCON was also conducted within the period under review. The operations of the credit bureaux and AMCON were reviewed to ensure the continued compliance with extant laws and regulations, including the CBN's regulations on credit reporting and the AMCON Act 2010 (as amended). The AMCON examination also reviewed the level of performance of its acquired assets, including recoveries made during the year. Appropriate remedial actions were identified for implementation by the examined institutions.

The maiden examination of Nova Merchant Bank Nigeria Limited, after six (6) months in operation, was conducted during the year. The examination revealed that the bank had in place appropriate governance structures and was operating in line with the conditions of its licence. With respect to Non-Interest Banks, a total of three (3) examinations; two (2) routine examinations (of the NIB and NIB Window) and the Risk Asset examination of Jaiz Bank Plc, were carried out in 2018. At the conclusion of the exercise, the banks were required to further strengthen their credit administration and control functions to improve the quality of risk assets.

2.4.7 Cross Border Supervisory Activities

The CBN, under its cross border supervisory activities, hosted the following events in 2018:

- A study tour by staff of Bank of Uganda from May 21 - June 8, 2018. The CBN provided the technical assistance (TA) in the area of Risk Based AML/CFT examination procedures for financial institutions. The TA was part of the CBN effort to increase supervisory collaboration and cooperation in sub-Saharan Africa;

- Seminar on "Risk Based Supervision' held in Chelsea Hotel, Abuja from May 7 - 11, 2018 on behalf of the Committee of Bank Supervisors of Central and West Africa; and
- Seminar on Basel II/III Implementation in Nigeria from May 14 -18, 2018.

Both seminars provided supervisors with the opportunity to analyse issues that border on managing crises from systemically important financial institutions. Issues on micro-prudential supervision, macro-prudential analysis, financial stability and effective resolution of problem banks were also discussed.

The Bank also participated in the following meetings and engagements with other regulatory authorities:

- The 13th BCBS-FSI High Level Meeting for Africa on "Strengthening Financial Sector Supervision and Current Regulatory Priorities" was held in Cape Town, South Africa from January 25 - 26, 2018. Discussions at the meeting were on the main supervisory challenges facing the sub-Saharan region, including the risk posed by the reduction in the number of correspondent banking relations. Other issues discussed included: financial deepening and inclusion; issues related to cross-border banking; non-performing loans; the role of state owned banks; consolidation of the banking industry; and the need to increase capacity building;
- The Community of African Banking Supervisors Meeting in Cape Town South Africa from June 25 - 26, 2018. The Meeting discussed issues of proportionality in banking regulation and supervision and the implications of expected credit loss provisioning for banks and supervisors. Further discussions were held on the use of working groups to ensure continued supervisory collaboration in sub-Sahara Africa;

- The Meeting of the College of Supervisors of Standard Chartered Bank in London, UK, held from July 19 - 20, 2018, to discuss issues on Cyber Risk, Group Liquidity Culture and the Enterprise Wide Risk Framework;
- The 4th Meeting of the College of Supervisors of Ecobank Transnational Incorporated in Abidjan, Cote d'Ivoire held from October 29 - 30, 2018, to review activities and risk profile of ETI (parent company of Ecobank Nigeria Ltd); and
- Four (4) meetings of the College of Supervisors for the West African Monetary Zone (CSWAMZ) were held in 2018, hosted by the Bank of Ghana in February, May, and November and by the Central Bank of Nigeria in September. The following were some of the major issues discussed: joint examination of Nigerian bank subsidiaries; the implementation of RBS, Basel II/III and IFRS/IFRS 9; update on problem bank subsidiaries; developments in cyber security in member states; progress report by WAMI on the study on "Reduction in Correspondent Banking Relationship in the West African Monetary Zone (WAMZ)"; recent developments in AML/CFT compliance; and update on the review of CSWAMZ Charter, among others.

2.4.8 Examination of Foreign Subsidiaries

The Bank conducted five (5) offshore joint examinations of Nigerian banks' foreign subsidiaries in 2018. The CBN also conducted three (3) onsite maiden risk focused examinations jointly with the Central Bank of The Gambia in a bid to facilitate the latter's transition to RBS under the subsisting MoU on supervisory collaboration. Furthermore, as a special arrangement and to follow up on the RBS training, the Bank of Sierra Leone invited the CBN for a joint RBS examination as a capacity building initiative. The onsite examination of a Nigerian bank subsidiary in Ghana was a follow up to a previous examination. The examination report indicated that the risk profile of the subsidiary remained moderate. The onsite examinations conducted in the review year, were part of the continuing effort at ensuring supervisory collaboration under the auspices of the WAMZ.

2.4.9 Foreign Exchange Monitoring/Examination

The Bank conducted a review of the foreign exchange activities of 26 banks in April 2018 to ascertain compliance with extant laws and regulations. The exercise covered foreign exchange activities for the period April 1, 2017 to March 31, 2018. Major Infractions detected included: failure of Authorised Dealers (ADs) to comply with regulations; non-repatriation of export proceeds within regulated time; and dealing in high valued foreign exchange transactions with corporate customers who were not on-boarded to the FMDQ advised trading and surveillance system. There were also observed instances of incorrect rendition of returns, non-compliance with approved Net Foreign Currency Trading Positions, and varied foreign trade documentation lapses. Appropriate penalties were imposed on the erring banks, where applicable, in line with prevailing foreign exchange laws and regulations. The Bank also conducted a review to ascertain compliance with the CBN directive on the establishment of Foreign Exchange Teller-points in bank branches across Nigeria. The review covered operations for the period April 1, 2018 to September 30, 2018. The exercise revealed that there was a high level of compliance by banks.

2.4.10 Domestic Systemically Important Banks

The CBN continued to subject the domestic systemically-important banks (D-SIBs) to enhanced supervision in line with the regulatory and supervisory framework for this category of banks. In the review period, seven (7) banks maintained their status as D-SIBs, following the conclusion of the six-monthly assessment. At end-December 2018, the DSIBs accounted for ₦22.39 trillion or 63.8 per cent of industry total assets of ₦35.10 trillion, ₦14.17 trillion or 65.4 per cent of total industry deposits of ₦21.67 trillion and ₦7.90 trillion or 64.4 per cent of industry gross loans of ₦12.27 trillion.

During the review period, Diamond Bank commenced merger arrangement with Access Bank, which is expected to result in a single entity under the Access Bank name. Also, the D-SIBs submitted their Recovery and Resolution Plans (RRPs) in compliance with the D-SIB supervisory Framework and in line with the "Minimum Content for Recovery Plans and Requirements for

Resolution Planning" guideline issued in November 2016, to ensure standardisation of banks' submissions. The purpose of the RRP is to serve as a "playbook" for both the management of banks and the CBN in times of financial stress.

2.4.11 Banking Sector Soundness

The health of the banks improved despite the challenging business environment in 2018. The industry average capital adequacy ratio (CAR) rose to 15.3 per cent at end-December 2018, compared with 10.28 per cent in 2017, and the 10.0 and 15.0 per cent benchmarks for banks with national, international authorisation, respectively. The level of CAR was also above the 8.0 per cent stipulated minimum requirement for international banks under the Basel capital accord. The increase was due, largely, to the increase in total qualifying capital and decrease in risk weighted assets. Similarly, asset quality, measured by the ratio of non-performing loans to industry total, improved to 11.4 per cent at end-December 2018, from 14.8 per cent in December 2017, although it was above the benchmark of 5.0 per cent. This was attributed to sales and write-offs during the year. Consequently, banks were required to intensify debt recovery, realise collateral for bad debts and strengthen risk management. The average industry liquidity ratio (LR), at 51.7 per cent in 2018, was higher than 45.6 per cent in 2017 and above the regulatory minimum of 30.0 per cent. One (1) bank did not meet the minimum liquidity ratio at end-December 2018, compared with four (4) in the preceding year.

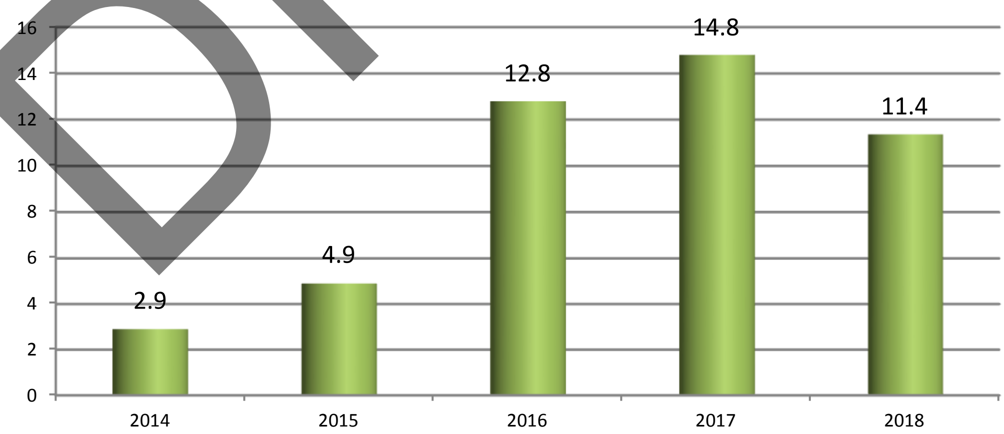
2.4.12 Macro-prudential Surveillance and Regulation

The CBN sustained the conduct of top-down solvency and liquidity assessment of the banking industry in the review period. Accordingly, the Bank carried out banking industry stress tests on twenty one (21) commercial and five (5) merchant banks to assess their resilience to systemic risks, while the banks conducted bottom-up solvency and liquidity stress tests in line with ICAAP provisions. In addition, the CBN continued the regular review of its stress test model to enhance its analytical capabilities and efficiency, in line with advancement in modelling processes.

The post-shock result of the top-down stress test revealed that, the banking industry withstood a general credit risk shock of between zero to 100.0 per cent increase in NPL from the baseline position. The CAR will fall from 15.26 per cent to 12.55 and to 9.67 per cent if NPL increased by 50.0 and 100.0 per cent, respectively. Similarly, the banking industry can withstand up to 50.0 per cent credit default in exposure to Oil & Gas sector as the industry post-shock CAR will remain above 10.0 per cent (10.2%).

The tests result on the net position of interest sensitive instruments showed that, the banking industry maintained a stable solvency position to interest rate shock (at 1000 bps downward shift in yield curve) as their post-shock positions (in terms of capital impairment) only deteriorated marginally. The interest rate shocks, however, had significant adverse impact on the ROA and ROE of the banking industry. The result further revealed that after a one-day run scenario, the liquidity ratio for the industry would decline to 34.7 per cent from the 51.9 per cent pre-shock position, and to 17.6 and 13.5 per cent after a five-day and cumulative 30-day scenario, respectively. Also, under 5-day and cumulative 30-day scenarios on the banking industry, liquidity shortfalls would be ₦1.58 trillion and ₦1.98 trillion, respectively.

Figure 2.12: Banks' Non-Performing Loans, 2014- 2018 (% of Total Credit)



Source: CBN

2.4.13 Examination of Other Financial Institutions

The Bank conducted on-site examination of 902 OFIs in 2018, compared with 969, in the preceding year. The exercise involved routine risk-based supervision of six (6) development finance institution (DFIs), 30 primary mortgage banks (PMBs), 490 microfinance banks (MFBs) and 52 finance companies (FCs). Target examination was also conducted on 224 MFBs and 100 BDCs in the review period.

The routine risk-based examination of six (6) of the seven (7) existing DFIs revealed that the composite risk rating of four (4) of the institutions were "High", while one (1) was "Above Average" and one (1) was "Low". Earnings of three (3) institutions were rated "Acceptable", and the remaining three (3) were rated "Weak", arising from significant deterioration in asset quality and high provisions for loan losses. The capital ratings for one (1) of the institutions was "Strong"; for two (2) "Acceptable"; while the remaining three (3) were "Weak". Similarly, prudential and soundness analysis of the DFIs revealed that three (3) out of the five (5) retail DFIs met the minimum regulatory capital of ₦10 billion. The Wholesale DFI and the Mortgage Refinancing Company also met the regulatory minimum capital of ₦100 billion and ₦5.0 billion, respectively. Three (3) of the DFIs had Capital Adequacy Ratio (CAR) above the regulatory minimum of 10 per cent, while the remaining three (3) institutions failed to satisfy the minimum CAR. Two (2) of the DFIs had all its credit facilities performing, one (1) had 5.02 per cent, marginally above the 5.0 per cent regulatory threshold, while the remaining four (4) institutions had non-performing loans ratio far above the regulatory threshold.

The routine and target examination of 714 MFBs revealed that the average capital adequacy ratio of the sub-sector rose to 41.8 per cent in 2018, from 32.6 per cent in 2017. Similarly, average portfolio-at-risk increased to 23.1 per cent at end-December 2018, from 21.2 per cent at end-December 2017, indicating a deterioration in the quality of risk assets. Industry average return on assets (ROA) declined to 1.2 per cent from 3.9 per cent at end-December 2017, while return on equity (ROE) increased to 16.5 per cent at end-December 2018, compared with 7.6 per cent at end-December 2017. The average liquidity ratio, which increased to 89.8 per cent at end-December 2017, declined to 82.8 per cent at end-December 2018.

Other highlights of the examination reports were:

- 546 MFBs met the required minimum liquidity ratio of 20.0 per cent;
- 573 MFBs met the required minimum capital adequacy ratio of 10.0 per cent; and
- 180 MFBs satisfied the 5.0 per cent stipulated maximum portfolio-at-risk (PAR).

Some of the regulatory interventions to address the challenges included:

- Stipulated deadlines for the recovery of non-performing insider-related credit;
- Directives for the injection of additional fresh capital;
- Interim prohibition on opening of new branches; and
- Enhanced supervision in addition to the implementation of the Bank's zero tolerance for infractions through a stiff sanction regime to instill market discipline.

The industry average CAR and LR were well above the regulatory minimum of 10.0 and 20.0 per cent, respectively. As the economy continues to improve, the ROA and LR are likely to improve on account of expected reduction in portfolio-at-risk (PAR) due to improved loan repayments.

The composite risk ratings of the 30 PMBs, examined in the review year, were "High" for sixteen (16), "Above Average" for seven (7) and "Moderate" for seven (7). The average CAR of the sub-sector increased from 34.1 per cent in 2017 to 41.0 per cent at end-December 2018. With the exception of one (1), all PMBs met the minimum CAR of 10.0 per cent. The asset quality of the industry deteriorated as the average non-performing loan ratio weakened from 34.8 per cent in 2017 to 59.6 per cent in 2018. Similarly, the sub-sector recorded a decline in the average liquidity ratio from 47.2 per cent in 2017 to 38.0 per cent at end-December 2018. The industry average ROA fell to 0.09 per cent at end-December 2018, from 0.15 per cent in 2017, while the ROE rose to 0.46 per cent at end-December 2018, compared with 0.14 per cent in 2017.

Routine examination of 52 finance companies (FCs) was conducted in 2018. The examination reports were being analysed to determine the Composite Risk Rating of the institutions with a view to ascertaining the safety and soundness of the sub-sector with regard to the quality of assets and capital.

The Bank conducted on-site examination of 100 BDCs during the review period. The examination revealed that many of the BDCs exhibited lapses that included:

- Failure to maintain basic accounting records for the preparation of financial statements, purchases and sales of foreign exchange;
- Non-submission of Annual Audited Accounts to the CBN;
- Poor AML/CFT compliance;
- Non-rendition of periodic returns by the BDCs;
- Relocation of business address without CBN's prior approval; and
- Use of the same international passport number and visa by two or more customers.

Various sanctions and monetary penalties were imposed on the errant BDCs for sundry infractions.

During the review period, the Nigeria Financial Intelligence Unit (NFIU) conducted spot check on selected BDCs to ascertain compliance with the AML/CFT Law. The CBN held meetings with the Association of Bureaux-de-Change Operators of Nigeria (ABCON) to discuss issues and challenges highlighted in the NFIU report. The NFIU became an independent agency during the review period.

2.4.14 Financial Literacy and Education

In the review year, the Bank sustained the implementation of various initiatives and coordination of stakeholders' activities to promote financial literacy and inclusion in Nigeria. In this regard, the CBN developed and distributed 62,000 copies of consumer financial education materials across various segments of the Nigerian population. The materials were distributed to consumers through six (6) branches of the Bank namely, Awka, Bauchi, Yola, Ibadan, Calabar and Port Harcourt. Also, the Bank delivered education materials for the Financial Inclusion State Steering Committee (FISSCO) awareness campaign organised by Financial Inclusion Secretariat at Uyo, Akwa Ibom State.

In addition, the Bank coordinated the commemoration of the 2018 Global Money Week (GMW) with the theme "Money Matters, Matter". The school mentoring programme was held on March 15, 2018 in the following states: Akwa Ibom; Ebonyi; Kogi; Jigawa; Osun; Taraba; and the Federal Capital Territory, Abuja, which directly imparted a total number of 729 students/ school children from eight (8) public schools. Similarly, the Bank collaborated with the Bankers' Committee sub-committee on financial literacy and public enlightenment to implement the school mentoring programme in the 36 states and the FCT. A total number of 523 schools were visited nationwide and 74,168 students (35,268 Male and 38,900 Female) benefited. As a fallout of the event, 4,867 new bank accounts were opened on behalf of the students.

Furthermore, the Bank in collaboration with stakeholders, joined with the rest of the world to commemorate the 2018 World Savings Day (WSD) celebrations on October 31, 2018. The essence of the WSD is to create awareness on the importance of savings for individuals and the economies. Nigeria has been a part of this global movement through a mentoring programme for the young population both within and outside the formal educational system. The mentoring programme for the young population event is used to sensitise the targeted groups on the importance of savings, investment, creating employment as well as entrepreneurship for personal and national development. To commemorate the event, a mentoring programme was conducted in 12 secondary schools from 12 states across the six (6) geopolitical zones. A total number of 960 students directly benefitted from the programme. The Bankers' Committee also conducted the mentoring program in secondary schools nationwide, where 57,084 students benefitted.

In furtherance of the Bank's activities to promote financial literacy, the Bank under the auspices of the Nigeria Educational Research and Development Council (NERDC), conducted a training/workshop for some selected basic and secondary school teachers. The purpose of the training was to expose the teachers to the implementation of the pilot phase to the Financial Education Curriculum (FEC) and the Teacher's Guide. The training took place in two locations, namely, Lagos from June 25 - 26, 2018 and Katsina from July 4 - 5, 2018. Two workshops on planning and writing, critique and editorial were held from September 24 - 29, 2018 to develop instruments that would be administered during the pilot testing of the FEC. The Pilot Testing Instruments would be used to assess the effectiveness of the FEC, and the Teachers Guide feedback from the teachers and students/pupils.

The Bank conducted trainings under the Targeted Financial Education Programme for Micro, Small, and Medium Enterprises (MSMEs) and Farmers in four (4) States, namely, Delta, Ebonyi, Niger and Osun States from February 12 - 16, 2018. A total of 136 participants, drawn from different groups in the states, were trained as trainers (ToT). Similarly, training was conducted for staff of the Federal Ministry of Women Affairs & Social Development in FCT, Abuja from July 30 - August 3, 2018 with a total of 25 participants trained as trainers during the programme. The ToT programme held from March 13 - 17, 2018 was conducted at the instance of the International Institute of Islamic Banking and Finance (IIIBF) in collaboration with the Centre for Gender Studies, Bayero University, Kano. A total of 35 participants were trained as master trainers, including academic staff from various relevant Departments and students.

Also, the Bank and the German Development Corporation (GIZ) hosted participants from the Federal Ministry of Youth and Sports Development (FMYSD) and the National Youth Service Corps (NYSC) at a workshop to review and evaluate the content and strategy of the National Peer Group Educator Programme (NAPGEP). The NAPGEP initiative is a collaborative effort between CBN, FMYSD and other stakeholders to drive financial literacy to the grassroots by leveraging on the NYSC programme. The implementation strategy for this Initiative was being reviewed to reflect the outcome of the workshop.

To deepen consumers' financial education, the Bank intensified nationwide sensitisation programme tagged "CBN Fair" held at various times in Bauchi, Delta, Gombe, Imo, Kaduna, Katsina, Kebbi, Ondo, Oyo, and Sokoto States. The critical components of the CBN Fair were creating awareness to consumers/participants on the financial literacy and consumer protection programmes of the Bank. Consumers were educated on their rights and responsibilities in dealing with financial institutions, the channels available to them for resolving issues and how to lodge complaints, among others.

The Bank participated in a workshop organised by the GIZ for members of the Financial Literacy Working Group (FLWG) and other stakeholders to develop modalities for the deployment of an e-learning platform. The platform is expected to serve as an avenue where consumers can access financial education either as trainers or end beneficiaries. Participants at the workshop included financial services providers, banks, development partners and other regulators in the financial system. The Bank and the GIZ also hosted other stakeholders at a content review session during which various financial education materials were reviewed in preparation for the development of the e-learning platform.

Other financial literacy activities involving the Bank included:

- Participation at the 11th Annual Banking & Finance Conference of the Chartered Institute of Bankers' of Nigeria (CIBN);
- Presentation of the paper titled "Financial Inclusion through Credit Reporting: Role of the Banking Supervision Department" at a workshop/training on credit bureau supervision;
- Presentation of the paper titled "Consumer Protection and Financial Literacy" at a knowledge exchange programme of the West African Economic Monetary Union (WAEMU);
- Participation at a seminar organised by the Chartered Institute of Bankers (CIBN), the National Judicial Institute (NJI) and other stakeholders

convening the 18th edition of the annual seminar for judges on banking and allied matters; and

- Participation at the Financial Inclusion Working Groups and Technical Committee meetings from November 14 - 15, 2018.

2.4.15 Consumer Protection

The Bank commenced the development of the implementation guideline on nine (9) principles of the Consumer Protection Framework in the review year. Consequently, three (3) sets of guidelines were developed, namely: "Complaints Handling & Redress"; "Guidelines on Fair Treatment of Consumers"; and "Disclosure and Transparency".

To ensure compliance by banks with consumer protection regulations, particularly the provisions of the Guide to Bank Charges (GBC), compliance examination was conducted in April 2018 on twenty one (21) banks covering the period October 2017 to March 2018. In addition to compliance with directives issued after previous examinations and resolution of outstanding complaints, which are generic areas, the April 2018 examination focused on the following major areas, observed to pose greater risk to consumers:

- Outward Telegraphic/Swift and Related Charges;
- SMS Notification Charges;
- Current Account Maintenance Fee Charged on Savings Account; and
- Compliance with Interest Rate Contained in the Offer Letter.

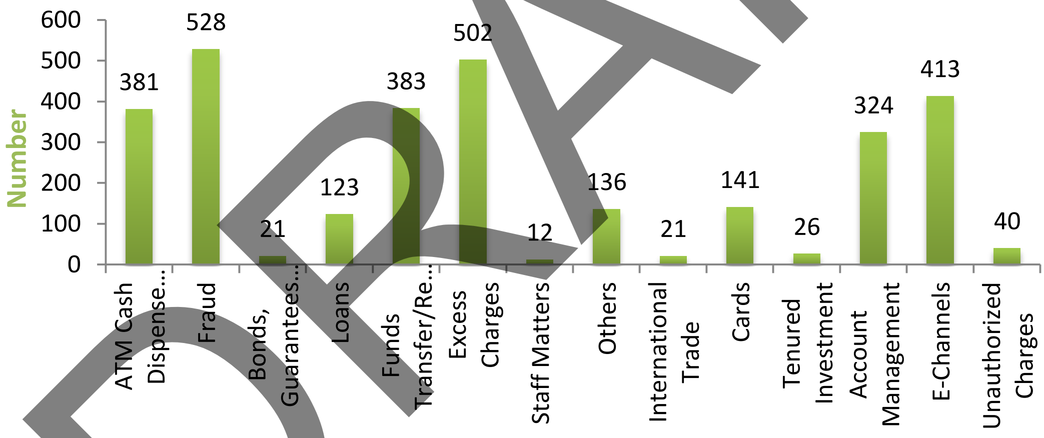
Overall, compliance levels in the aforementioned examination areas were for directives issued after previous examinations (90.0%), the resolution of outstanding complaints (22.6%), outward telegraphic Transfer Fees and Related Charges (100.0%), SMS notification charges (52.4%), application of account maintenance fees on savings account (100.0%), and compliance with interest rates disclosed in loan offer letters (95.3%).

The number of complaints received from consumers against financial institutions rose by 702 or 29.9 per cent, from 2,349 in 2017 to 3,051 in 2018. Of this number, complaints against banks and other financial institutions (OFIs) accounted for 3,032 (99.4%) and 19 (0.6%), respectively, compared with 97.2

per cent and 2.8 per cent in 2017. The complaints included ATM dispense errors, excess charges, account management issues, card related and international trade/ guarantees.

Following mediation meetings and other measures by the Bank to resolving the complaints, 6,219 cases were resolved and closed in 2018, indicating an increase of 3,709 or 147.8 per cent, compared with 2,510 in 2017. Accordingly, refunds based on resolved complaints amounted to ₦28.44 billion, US$1.93 million, €32.82 and £2,889.98 in 2018, compared with ₦5.98 billion, US$2.55 million and €6,940.00 in 2017. Refunds based on directives and recommendations from compliance examination was ₦9.88 billion, US$1.84 million, €26,319.44 and £2,889.98 in 2018, compared with ₦7.86 billion in 2017. Also, the Bank imposed sanctions, on 10 banks for failure to comply with specific regulatory directives in 2018, compared with 7 banks in 2017.

Figure 2.13: Consumer Complaints by Category, 2018



Source: CBN

2.5 DEVELOPMENTAL FUNCTIONS OF THE CBN

The Bank sustained its developmental activities, in response to increasing demand for economic diversification and sustainable development in 2018. To improve the flow of affordable credit to the real sector and stimulate growth, it introduced new interventions while sustaining the implementation of existing initiatives. The interventions were expected to create new jobs, facilitate the development of micro, small and medium enterprises (MSMEs), and promote financial inclusion.

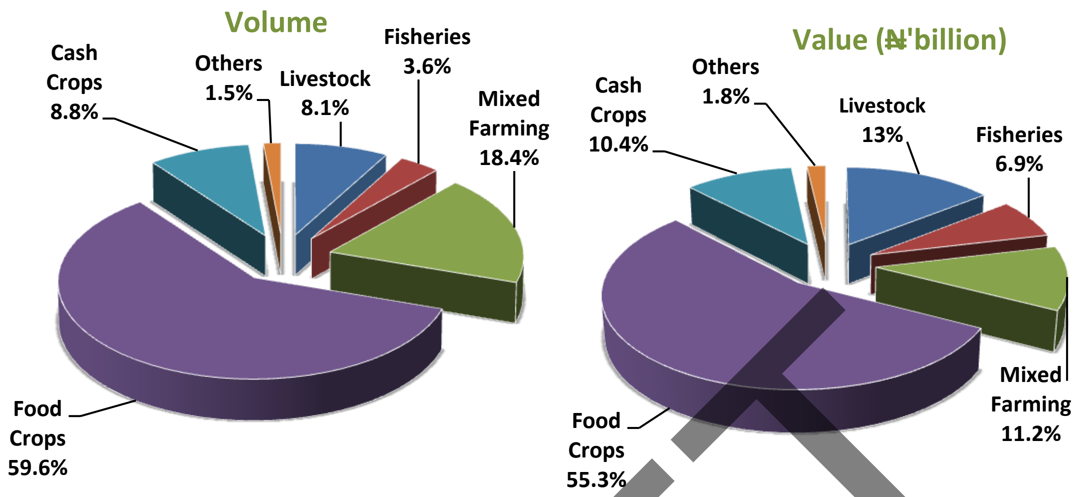
2.5.1 The Agricultural Credit Guarantee Scheme (ACGS)

A total of 30,612 loans, amounting to ₦4.38 billion, were guaranteed in 2018, compared with 41,341 loans, valued at ₦5.85 billion in 2017. This represented 25.9 per cent and 25.2 per cent decrease in volume and value of loans guaranteed, respectively. A breakdown of the guaranteed loans showed that 30,594 loans (99.9%), valued at ₦4.36 billion (99.7%), were granted by microfinance banks (MFBs) and 18 loans (0.1%), valued at ₦0.02 billion (0.3%), were granted by commercial banks.

Further breakdown of volume of loans guaranteed by category of borrowers showed that 29,796 loans (97.3%) were granted to individuals; 345 loans (1.1%) to self-help or informal groups; 447 loans (1.5%) to cooperatives; and 24 loans (0.1%) to companies. In value terms, the distribution of loans guaranteed showed that ₦4.26 billion (97.4%) was granted to individuals; ₦470.0 million (1.1%) to self-help groups; ₦470.0 million (1.1%) to cooperatives; and ₦16.0 million (0.4%) to companies.

The distribution of loans guaranteed by purpose indicated that food crops dominated with 18,233 loans (59.6%), followed by mixed farming, 5,647 loans (18.4%); cash crop, 2,689 loans (8.8%); livestock, 2,484 loans (8.1%); fisheries, 1,099 loans (3.6%); and others, 460 loans (1.5%). In terms of value of loans guaranteed, food crops accounted for ₦2.42 billion (55.3%); livestock, ₦0.63 billion (14.4%); mixed farming, ₦0.49 billion (11.2%); cash crop, ₦0.45 billion (10.5%); fisheries, ₦0.30 billion (6.8%); and others; ₦0.08 billion (1.8%)

Figure 2.14: Volume and Value of Loans Guaranteed by Purpose under the ACGS, 2018 (Per cent)



Source: CBN

Cumulatively, the volume and value of loans guaranteed, under the Scheme, since inception in 1977 to end-December 2018 stood at 1,313,180 and ₦114.24 billion, respectively.

The number of loans fully repaid in the review year was 30,372, valued at ₦5.48 billion. This represented 26.1 and 8.0 per cent decrease in volume and value of loans fully repaid, respectively, compared with 41,075 loans, valued at ₦5.95 billion, in 2017.

A breakdown of volume of loans fully repaid by state indicated that Sokoto State had the highest with 1,987, followed by Kwara and Bauchi States with 1,906 and 1,823, respectively. The distribution of loans fully repaid showed that the largest amount was recorded in the following states: Nasarawa (₦519.00 million), Osun (₦407.00 million) and Bauchi (₦349.00 million).

Total, repayments under the ACGS stood at ₦86.94 billion for 889,268 loans, since inception to end-December 2018.

The total value of default claims settled in 2018 was ₦7.17 million, in respect of 373 loans. This brought the cumulative claims settled since inception in 1977 to end-December 2018 to 17,757, valued at ₦652.29 million.

2.5.2 The Interest Drawback Programme (IDP)

A total of 14,811 Interest Drawback Programme (IDP) claims, valued at ₦196.74 million, were settled in the review year, compared with 22,035, valued at ₦199.15 million, in 2017. This represented a decline of 11.9 and 25.1 per cent in volume and value, respectively, below the levels in 2017. Cumulatively, 351,540 IDP claims, valued at ₦3.11 billion, had been settled since inception of the Programme in 2003.

2.5.3 Anchor Borrowers' Programme (ABP)

The sum of ₦118.96 billion was disbursed in 2018, through 19 participating financial institutions (PFIs), to 646,213 smallholder farmers, who cultivated 640,422 hectares of land. The farmers were represented by 194 anchors in the 36 states and FCT. The Northern part of the country had 581,336 beneficiaries, who cultivated rice, maize and sorghum, while in the South, 64,877 farmers participated in the production of fish, oil palm, poultry and cassava. Participating financial institutions, under the Programme, increased to 19 in 2018, compared with 17 in 2017.

The number of commodities financed under the ABP also increased to 16 in 2018 from 9 in 2017. The new commodities were castor seed, cocoa, ginger, oil palm, sesame seed, tomato and cattle fattening. Fifty-four (54) anchor companies expressed interest to participate in the 2018/2019 dry season farming under the Programme at end-December 2018.

From inception in 2015 to end-December 2018, a cumulative sum of ₦174.48 billion had been disbursed, under the Programme, to finance 902,518 farmers. In addition, 2,807,775 and 8,423,325 direct and indirect jobs, respectively, had been created under the ABP.

Table 2.7: Funds Disbursement under the ABP by Anchor (2015 – 2018)

Anchors	Number of Anchors	Number of Farmers	Number of Hectares	Total Disbursements (₦' Billion)
State Governments	14	184,354	197,817	39.77
Private	177	239,299	310,117	56.97
Commodity Associations	3	478,865	427,991	77.74
TOTAL	**194**	**902,518**	**935,925**	**174.48**

Source: CBN

Total repayment stood at ₦3.39 billion at end-December, 2018, bringing the cumulative repayment of ₦21.41 billion, since inception of the Programme in 2015.

2.5.4 Commercial Agriculture Credit Scheme (CACS)

The sum of ₦79.71 billion was released to 12 banks, in respect of 40 projects, in the review year. This comprised 35 private projects, valued at ₦57.12 billion, and 5 state government-sponsored projects, valued at ₦22.60 billion. Thus, indicating 23.1 and 31.7 per cent decrease in the volume and value of loans disbursed, respectively, compared with ₦116.75 billion released to 52 projects in 2017.

Analysis of funds released under CACS by value chain activity in 2018 showed that production, processing, input supplies and storage accounted for 45.1, 31.1, 12.5 and 11.3 per cent, respectively. There were no applications for funding from the marketing segment of the value chain in the review year.

Table 2.8: Funds Disbursement under CACS by Value Chain Activity (2018)

Category	Number	Percentage	Value (₦ 'billion)	Percentage
Production	18	45.0	35.97	45.1
Processing	16	40.0	24.74	31.1
Marketing	0	0.0	0.00	0.0
Storage	3	7.5	9.00	11.3
Input Supplies	3	7.5	10.00	12.5
Total	**40**	**100.00**	**79.71**	**100.00**

Source: CBN

From inception in 2009 to end-December 2018, the sum of ₦603.29 billion had been disbursed to 589 projects, under the Scheme, as follows: ₦273.35 billion for 315 projects from the CACS Receivables Account; and ₦329.94 billion for 274 projects from the CACS Repayment Account.

Repayments amounting to ₦54.69 billion were received from 17 banks in the review year, compared with ₦48.61 billion from 17 banks in 2017. The repayments in 2018 showed an increase of 12.5 per cent, above the level in 2017. Cumulative repayments, since inception of the Scheme in 2009 to end-December 2018, stood at ₦328.31 billion for 547 projects, representing steady repayments for 263 projects and full repayments for 284 projects.

During the year, the CACS Guidelines were amended to include a non-interest window, which aimed at facilitating the participation of Non-Interest Financial Institutions (NIFIs) under the Scheme. The amended CACS Guidelines became operational on February 16, 2018 and two (2) projects (Tiamim Rice Limited and Alhamsad Rice Limited), valued at ₦2.0 billion, were financed through the Jaiz Bank Plc, under the non-interest window.

2.5.4.1 The Paddy Aggregation Scheme (PAS)

The Paddy Aggregation Scheme (PAS) was approved in 2017, as a working capital facility under CACS, for integrated rice millers. Disbursements under the first phase of the PAS were concluded in November 2018, with the sum of ₦30.40 billion released to 4 banks to finance 8 integrated rice millers in the review year.

The second phase of the PAS was approved in November 2018, with the sum of ₦53.00 billion to six (6) large integrated rice millers for a tenor of 24 months and interest rate of 5.0 per cent. The modalities for the implementation of the Rice Distributors Facility (RDF) initiative, under the PAS, were also approved to enable medium- and large-scale rice distributors purchase locally milled rice from integrated rice millers across the country.

The sum of ₦14.00 billion was disbursed to two (2) lending banks (First Bank & Zenith Bank), in respect of two (2) integrated rice millers (Wacot Rice & Hillcrest Agro Allied Industries), under the PAS Phase 2 in 2018.

2.5.5 The Agri-Business/Small and Medium Enterprises Investment Scheme (AGSMEIS)

At end-December 2018, the sum of ₦33.94 billion was received from 23 banks, compared with ₦26.86 billion from 21 banks at end-December 2017. Cumulatively, the sum of ₦60.80 billion had been aggregated under the Scheme for on-lending to MSMEs across the country. The sum of ₦414.93 million was disbursed to 509 beneficiaries, through 14 banks, in 2018. This comprised ₦205.97 million for equipment acquisition and ₦208.96 million for working capital.

2.5.6 The Accelerated Agriculture Development Scheme (AADS)

The Bank launched the Accelerated Agricultural Development Scheme (AADS) in October 2017, with an annual target of engaging at least 370,000 youth farmers across the agricultural value chain. The Scheme provides credit at 9.0 per cent per annum, with maximum tenor of five years, depending on the gestation period of the enterprise.

As part of their contribution, the state governments are to provide logistic support such as land development, infrastructure and services, including farmer training and extension. Under the Scheme, there is a window for state governments to access funds for land development, provided they expressed acceptable level of commitment by initiating a pilot model of the Scheme in their respective states, with at least 1,000 farmers.

2.5.7 The Non-Oil Export Stimulation Facility and the Export Development Facility (EDF)

The Non-Oil Exports Stimulation Facility (NESF) was sustained in 2018. The Facility was introduced to deepen the non-oil sector by facilitating access to affordable financing by export-oriented firms and reposition the sector for greater competitiveness and foreign exchange earnings. The sum of ₦25.4 billion was disbursed, under the NESF, in 2018, to eight (8) obligors who exported agricultural commodities such as cashew, sesame seeds, among others.

The Export Development Facility (EDF), managed by the Nigerian Export and Import Bank (NEXIM), had the objective of financing State Export Development Initiatives in the 36 states and FCT; promoting value chain development in shea, cashew and jute/kenaf; encouraging women and youth participation across the value chains; and supporting projects of national economic importance and proven export potentials that require loan restructuring. Under the EDF, the sum of ₦10.18 billion was disbursed to 17 projects engaged in agriculture, manufacturing and solid minerals during the review year.

2.5.8 The Micro, Small and Medium Enterprises Development Fund (MSMEDF)

A total of ₦6.37 billion was disbursed under the wholesale funding and grant components of the Micro, Small and Medium Enterprises Development Fund (MSMEDF). This represented an increase of ₦2.11 billion or 49.5 per cent, compared with ₦4.26 billion disbursed in 2017.

An analysis of disbursements under the wholesale component indicated that ₦4.50 billion (70.6%) was disbursed to state government; microfinance banks, ₦1.15 billion (18.1%); Non-Governmental Organisation – Microfinance Institutions (NGO-MFIs), ₦93.00 million (1.4%); banks, ₦57.00 million (0.9%); while financial cooperatives accessed no funds in the review year. The sum of ₦570.00 million or 9.0 per cent of disbursements in 2018, was released as grants, compared with ₦101.00 million in 2017.

The cumulative disbursement to MSMEs from inception, in 2013, to 2018 was ₦83.36 billion, comprising ₦57.62 billion (69.1%) through state governments; commercial banks, ₦12.67 billion (15.2%) and microfinance banks, ₦11.35 billion (13.6%). Others were NGO-MFIs, ₦0.59 billion (0.7%), cooperatives, ₦0.42 billion (0.5%), and development finance institutions (DFIs), ₦10.00 million (0.01%); while grants accounted for ₦0.70 billion (0.9%).

The sum of ₦5.83 billion was repaid in 2018, representing a decrease of 41.2 per cent below the ₦8.23 billion repaid in 2017. Cumulative repayment, under the intervention since inception, stood at ₦19.21 billion at end-December 2018.

Table 2.9: Funds Uptake and Repayment under the MSMEDF (2014-2018)

CLASS	DISBURSEMENT (₦ billion)	REPAYMENT (₦ billion)
State governments	57.62	7.32
DMBs	12.67	6.01
MFBs	11.35	5.35
DFIs	0.01	0.00
Coop	0.42	0.17
NGO-MFIs	0.59	0.36
GRANT	0.70	N/A
TOTAL	**83.36**	**19.21**

Source: CBN

2.5.9 The Nigeria Electricity Market Stabilisation Facility (NEMSF)

The sum of ₦62.88 billion was disbursed to 37 projects in the power sector in 2018, under the Nigeria Electricity Market Stabilisation Facility (NEMSF). This brought the cumulative disbursement since inception in 2014 to ₦183.09 billion.

Table 2.10: Funds Uptake under the NEMSF (2017 – 2018)

	Description	January - December (2017)	January - December (2018)	Total (from inception)
DisCos	No of Beneficiaries	1	7	
	Amount (₦ billion)	0.11	0.16	49.88
GenCos	No of Beneficiaries	1	18	
	Amount (₦ billion)	5.23	32.04	86.33
GasCos	No of Beneficiaries	1	6	
	Amount (₦ billion)	0.13	12.58	28.31
Service	No of beneficiaries	0	6	

Providers	Amount (₦ billion)	0.00	18.10	18.564
	Total (₦ billion)	**5.47**	**62.88**	**183.09**

Source: CBN
Note: DisCos - Electricity Distribution Companies
GenCos - Electricity Generating Companies
GasCos - Gas Supplying Companies

The total of ₦14.89 billion was repaid by 11 DisCos during the review year, bringing the cumulative repayment since inception to ₦30.46 billion. The achievements under the facility included:

1. Significant capital expenditure (Capex) in the industry, leading to recovery of generating capacity of more than 1200MW in both hydro and thermal plants through the overhaul of turbines.
    - Execution of capacity recovery programme was carried out in three hydro power stations as follows: Intake under water repair project, overhaul of Unit 4 and compliant metering/supplementary protection at Shiroro Dam; overhaul of 2G6 at Jebba Hydro; and rehabilitation of 3 units at Kainji Dam.
    - Rehabilitation of 10 gas turbines at major thermal power plants, including Geregu, Transcorp Ughelli, and Ibom Power Plants
2. Enabling Electricity Distribution Companies (DisCos) to carry out projected Capex, through issuance of letters of credit (LCs) for the purchase of over 704,928 meters (Maximum Demand, 3-phase and Single phase Smart meters); Rehabilitation of over 332 kms of 11KV lines and 130km of 0.45KV lines; 511 transformers purchased and installed; and construction of 56 new distribution sub-stations and acquisition of 1 mobile injection sub-station.

2.5.10 Power and Airline Intervention Fund (PAIF)

The sum of ₦21.99 billion was released to the Bank of Industry (BOI) for five power projects under the Power and Airline Intervention Facility (PAIF). These were: the Kano Hydro Power Project (₦3.01 billion); Ashaka Cement Limited (₦6.75 billion and ₦3.25 billion); Azura Power Project (₦4.93 billion); and Para Energy and Natural Resources Development Limited (₦4.05 billion).

By end-December 2018, the cumulative amount released to the Bank of Industry (BOI), under the intervention, stood at ₦301.37 billion, out of which ₦180.61 billion was disbursed for 45 power projects and ₦120.76 billion to 24 airline projects.

Repayments in the review year stood at ₦25.69 billion, comprised ₦10.19 billion from airline projects and ₦15.50 billion from power projects. Cumulative repayment from inception in 2010 was ₦145.52 billion: comprising ₦71.13 billion for airline and ₦74.39 billion for power projects.

- By end-December 2018, the achievements of PAIF included:

Power

- A total of 1,398.8 MW of power was financed under the Scheme. Industries Serviced: Fast Moving Consumer Goods (4.4%); Steel Production (10.4%); Cement (27.9%); packaging (12.0%); Agro Allied (0.7%); Independent Power Projects (41.9%); and wood products (2.0%);
- The Fund also financed the construction of 120 – kilometre natural gas pipeline from Ikpe Anang in Akwa –Ibom State to Mfamosing in Cross River State;
- Created a cash flow for recurrent expenditure through the interest differential brought about by the average interest rate gap of over 11 per cent (average lending rate of 18 per cent to a maximum ceiling of 9 per cent);
- Provided seed capital that leveraged additional private sector investments into the Nigerian power sector with the private-sector investors providing 30 per cent of the project cost, while the initiative provided the remaining 70 per cent; and
- Provided long-term facilities to banks with tenor up to 15 years, suitable for financing infrastructure projects.

2.5.11 The Nigeria Bulk Electricity Trading-Payment Assurance Facility (NBET-PAF)

The Federal Government introduced the ₦701 billion Payment Assurance Facility for the Nigeria Bulk Electricity Trading (NBET) Plc., as a bridging facility. Through this Facility, NBET-PAF provides a minimum level of payment to GenCos to enable them meet their obligations to gas suppliers (GasCos). The aim of the facility is to support increase in the level of power generation in the country.

A total of ₦424.49 billion was paid for invoices in the review year. This comprised ₦183.17 billion paid to GasCos; GenCos, ₦234.59 billion; equipment suppliers, ₦132.33 million; and withholding tax, ₦6.60 billion. Cumulatively, the sum of ₦534.18 billion had been paid, under the intervention, since its inception.

2.5.12 The Small and Medium Enterprises Refinancing and Restructuring Facility (SMERRF) and the Real Sector Support Facility (RSSF)

The Small and Medium Enterprises Refinancing and Restructuring Facility (SME-RRF) was discontinued in 2014, and replaced with the Real Sector Support Facility (RSSF), with a different strategic focus.

Cumulatively, the sum of ₦381.99 billion was disbursed to 604 projects, under the SME-RRF, since inception to end-December 2014, when the Facility was discontinued. Repayments, under the Facility, stood at ₦25.20 billion in 2018, which was ₦1.69 billion or 6.3 per cent below the ₦26.89 billion repaid in 2017. This brought the total amount repaid, since its inception to end-December 2018, to ₦105.34 billion.

The Scheme had sustained the operations of 604 companies, 340 were in operation before benefitting from the Facility, while the remaining 264 obligors accessed the Facility to complete/ resuscitate their projects.

Table 2.12: Sectoral Distribution of Loans under SME-RRF

S/N	Sector	Number of projects	Value (₦' billion)
1	Agro allied	69	22.92
2	Chemicals & Plastics	156	147.00
3	Engineering & Construction	92	56.81
4	Food & Beverages	102	72.55
5	Hotel & Tourism	2	0.53
6	Information and Communication Technology (ICT)	20	14.12
7	Oil & Gas	21	8.23
8	Paper & Allied Products	57	26.17
9	Pharmaceuticals	37	11.61
10	Solid Minerals	18	6.90
11	Textile & Leather	18	8.52
12	Transportation	12	6.63
	TOTAL	**604**	**381.99**

Source: CBN

The Real Sector Support Facility (RSSF) was established in November 2014 to provide a long-term, low-interest financing solution to Nigerian SMEs with financing needs of up to a maximum of ₦10.0 billion. The objective of the Facility was to close the short-term and high-interest financing gap for SME/ manufacturing and start-ups, as well as, create jobs through the real sector of the Nigerian economy.

The sum of ₦63.50 billion was disbursed to 10 projects under the RSSF in the review year. Cumulatively, the sum of ₦115.51 billion had been disbursed to 23 projects since its inception to end-December 2018. Repayments under the Facility, which started in 2017, stood at ₦6.64 billion.

As a window under the RSSF, guidelines on the modalities for accessing funds through the Differentiated Cash Reserve Requirement (DCRR) and Corporate Bonds (CBs) options were released in August 2018. Under the RSSF-DCRR window, the sum of ₦6.16 billion was disbursed to 4 projects in the review year.

2.5.12.1 The National Food Security Programme (NFSP)

The Bank approved the National Food Security Programme (NFSP) as a special funding window under the RSSF in November 2016, to encourage the commercial or large-scale production and processing of grains such as rice, maize, sorghum and millet. This was designed to support the Federal Government's Strategic Grain Reserves and boost national food security.

There was no disbursement, under the Programme, in 2018. Thus, the cumulative disbursement from inception to end-December 2018 remained at ₦38.96 billion. Also, all the facilities are still under moratorium.

2.5.12.2 The Presidential Fertilizer Initiative (PFI)

In the review year, the Bank released ₦25.00 billion to fertilizer blending plants for the procurement of raw materials, under the initiative. The facilities were disbursed from the RSSF and are under moratorium. In addition, 65,000MT (over 1.3 million 50kg bags) were blended in the 2018 farming season, and over 20,000 direct and indirect jobs created at the blending plants and across the value chain.

2.5.13 The Textile Sector Intervention Facility (TSIF)

Under the Textile Sector Intervention Facility (TSIF), managed by the Bank of Industry (BOI), the sum of ₦30.38 billion was disbursed to 2 obligors in 2018, compared with ₦11.47 billion disbursed to 20 obligors in 2017. Cumulatively, the sum of ₦55.77 billion had been disbursed to 33 obligors since the inception of the Facility.

2.5.14 The National Collateral Registry (NCR)

At end-December 2018, 456 financial institutions, comprising 411 microfinance banks, 34 finance companies and 11 non-bank financial institutions were registered on the NCR portal. This brought the cumulative number of financial institutions registered to 628, comprising 21 commercial banks, 551 microfinance banks, 4 merchant banks, 4 development finance institutions, 1 specialised (non-interest) bank, 34 finance companies and 13 non-bank financial institutions.

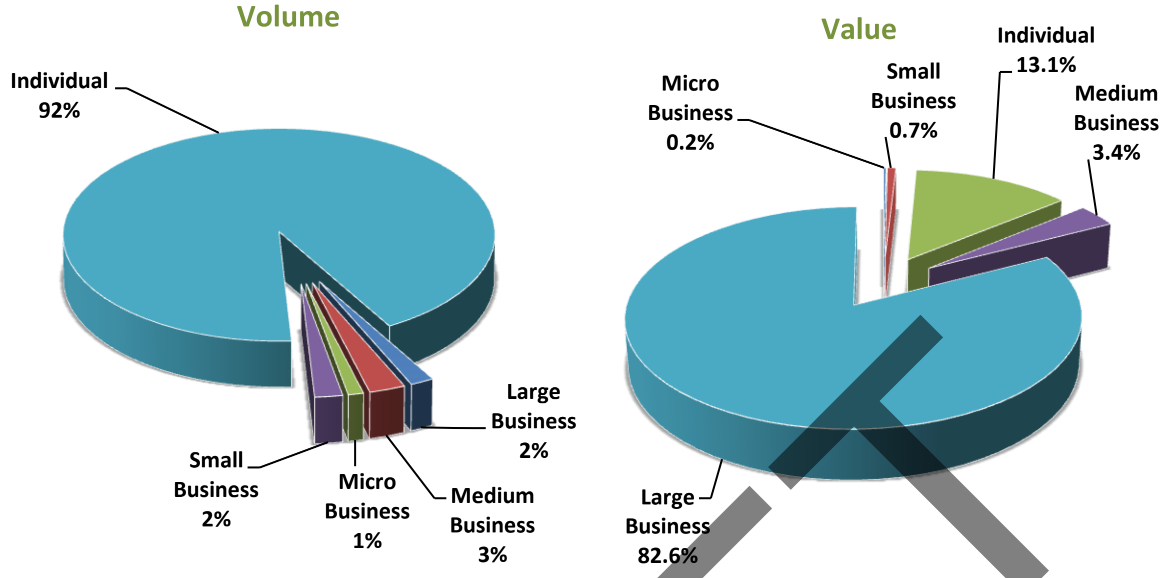
Of this number, 70 financial institutions registered their priority interests in movable assets pledged by 51,258 borrowers, valued at ₦718.00 billion, US$1.10 billion and €23,000, through 17,042 financing statements. The naira value of financing statement in 2018 was 47.4 per cent higher than the corresponding value of ₦487.30 billion in 2017. Similarly, the value of the US dollar registered was significantly above than the corresponding value of US$20.00 million in 2017.

Table 2.13: Number and Value of Financing Statements at end-December 2018

Debtor type	Number of financing statements		Currency	Value of financing statements (N 'million)	
	2018	**Cumulative**		**2018**	**Cumulative**
Individual	46,973	146,778	NGN	91,874.27	129,981.96
			USD	0.64	0.64
Large Business	283	687	NGN	576,322.67	843,168.21
			USD	1,118.50	1,138.50
			EUR	Nil	6.06
Medium Business	438	2,169	NGN	23,755.05	210,998.55
			USD	3.13	3.13
Micro Business	160	3,416	NGN	904.30	5,528
Small Business	323	1,777	NGN	5,146.56	19,705.20
			USD	0.12	0.12
			EUR	0.02	0.02
Total	**48,177**	**154,827**	**NGN**	**698,001.84**	**1,209,381.01**
			USD	**1,122.39**	**1,142.39**
			EUR	**0.02**	**6.08**

Source: CBN

Figure 2.15: Number and Value of Financing Statements Registered on the NCR's Portal by Debtor Type (2018) (Per cent)



Source: CBN

Analysis of the number of financing statements by debtor type, in the review year, showed that the highest proportion of 92.6 per cent were registered in respect of loans to individuals, while 1.1 per cent, was in respect of loans to micro businesses. In value terms, large businesses accounted for the highest value of registered financing statements with a proportion of 82.7 per cent, while 0.2 per cent was for micro businesses.

Cumulatively, since commencement of operations in 2016 to end-December 2018, 39,786 financing statements had been registered, against 157,908 borrowers on the portal, valued at ₦1.23 trillion, US$1.14 billion and €6.08 million. In addition, 14,851 searches (3,782 public and 11,069 financial institutions) were conducted on the NCR portal in the review year.

2.5.15 The Financial Inclusion Programme

State Implementation Framework for National Financial Inclusion Strategy (NFIS)

The Financial Inclusion State Steering Committees (FISSCOs) were inaugurated in the first quarter of 2018, with CBN Branch Controllers as Chairmen and Heads of Development Finance Office (DFO) as Secretaries. The FISSCOs are responsible for the implementation of the National Financial Inclusion Strategy (NFIS) at the State level. In the year under review, the

FISSCOs across the federation held their quarterly meetings during which they deliberated on strategies for implementation in the various states.

Review of the National Financial Inclusion Strategy

The review of NFIS was completed in the review year. The revised strategy identified women, rural areas, youth, SMEs and the Northern geo-political zones as the most financially excluded and recommended the following key strategies to address the exclusion challenges:

a) Creation of appropriate regulatory and policy environment;
b) Massive roll out of agent networks;
c) Simplification/harmonisation of identity and know your customer requirements;
d) Digitisation of financial transactions; and
e) Development of ecosystems that support digital and electronic transactions.

Stakeholders were engaged to create a level playing regulatory field for operators and concentrate on areas where they have the most comparative advantage in their implementation plans and activities.

Status of Financial Inclusion at end-December 2018

Findings from the 2018 edition of the biennial Access to Financial Services Nigeria Survey conducted by the Enhancing Financial Innovation and Access (EFInA) revealed an increase in the percentage of adult Nigerians that were included in financial services from 58.4 in 2016 to 63.2 per cent in 2018 (4.8 percentage points). The percentage of banked adult Nigerians increased from 38.3 in 2016 to 39.7 per cent within the same period. Four (4) geo-political zones recorded increased inclusion between 2016 and 2018 as follows: North West from 30.0 to 38.0 per cent, North East from 38.0 to 45.0 per cent, North Central from 61.0 to 69.0 per cent and South South from 69.0 to 77.0 per cent.

2

MONETARY POLICY, SURVEILLANCE ACTIVITIES AND OPERATIONS OF THE CBN

North West	2014	2016	2018
Total Adult Population	21M	22M	23M
Formally Included	35%	24%	27%
Informal Only	9%	6%	11%
Financially Excluded	56%	70%	62%

North East	2014	2016	2018
Total Adult Population	11M	12M	12M
Formally Included	26%	25%	34%
Informal Only	5%	14%	12%
Financially Excluded	68%	62%	55%

North Central	2014	2016	2018
Total Adult Population	14M	14M	14M
Formally Included	49%	48%	50%
Informal Only	19%	14%	19%
Financially Excluded	33%	39%	31%

South South	2014	2016	2018
Total Adult Population	15M	16M	16M
Formally Included	52%	55%	60%
Informal Only	15%	14%	17%
Financially Excluded	33%	31%	23%

Two (2) geo-political zones, however, recorded marginal decrease in financial inclusion rates: South West from 82.0 to 81.0 per cent; and South East from 72.0 to 71.0 per cent.

South West	2014	2016	2018
Total Adult Population	20M	21M	22M
Formally Included	63%	78%	64%
Informal Only	13%	4%	17%
Financially Excluded	25%	18%	19%

South West	2014	2016	2018
Total Adult Population	20M	21M	22M
Formally Included	63%	78%	64%
Informal Only	13%	4%	17%
Financially Excluded	25%	18%	19%

Table 2.14: Channels for Financial Services

Classification	Baseline 2010[1]	Actual 2017*	Actual 2018*	Target 2018	Target 2020
Number of DMB branches per 100,000 adults	6.8 (5,797 branches)	4.9 (5,049 branches)	4.8 (5,062 branches)	7.4 (7,662 branches)	7.6 (8,398 branches)
Number of MFB branches per 100,000 adults	2.9 (2,456 branches)	2.3 (2,197 branches)[2]	2.4 (2,367 branches)[2]	4.7 (4,662 branches)	5.0 (5,525 branches)
Number of ATMs per 100,000 adults	11.8 (9,958 ATMs)	18.0 (18,028 ATMs)	17.7 (17,512 ATMs)	49.6 (49,115 ATMs)	59.6 (65,859 ATMs)
Number of POS terminals per 100,000 adults	13.2 (11,223 POS)	130.7 (136,016 POS)	126.8 (138,914 POS)	606.7 (606,606 POS)	850.0 (939,267 POS)
Number of Agents per 100,000 adults	0.0	10.7 (11,104 agents)[4]	17.9 (18,594 agents)	38.0 (37,552 agents)	62.0 (68,511 agents)

Source: CBN

*1National Financial Inclusion Strategy, 2012; Value for MFB branches approximate based on EFInA (2010); 2Data for 12/2017 based on 57% of all licensed MFBs, while data for 12/2017(provisional) is based on 64% of all licensed MFBs only; 4815 bank agents and 14,330 mobile money agents; Data for mobile money agents is based on only 13 out of 22 MMOs who had already uploaded data on CBN's Agent Banking Database as at June 30, 2018.*Provisional figure.*

Fintech for Financial Inclusion

Nigeria joined the other members of the Alliance for Financial Inclusion (AFI) Network to issue the Sochi Accord on "Fintech for Financial Inclusion" at the 2018 Global Policy Forum held in Sochi, Russia in September 2018. The Accord requires member countries to leverage Fintechs to accelerate financial inclusion. AFI members resolved to *acknowledge, recognise, encourage, commend, welcome, harness and identify* that innovative, technology-based financial services hold more promises towards advancing financial inclusion, especially among vulnerable segments of the society. Member-countries were expected to:

- ***Demonstrate*** through examples and case studies that Fintech advances financial inclusion and includes vulnerable segments of the society, as well as the MSMEs.
- ***Build and reinforce*** institutional capacity and talent to clearly understand technological complexities and business model innovations to come up with appropriate regulatory interventions.
- ***Create and participate*** in platforms for systematic dialogue and partnership among regulators, policy makers, Fintech companies, technology providers, standard-setting bodies and academic researchers on the issue of Fintech for Financial Inclusion.
- ***Promote a culture of innovation*** within the regulatory bodies, as well as, within the broader ecosystem.
- ***Commit to identify, understand improve or develop*** new approaches to regulation and policy making, along with the use of technology, to balance the benefits of financial services innovation and financial stability, as well as, consumer protection mandates.
- ***Concur to work towards developing*** Maya Declaration commitments with quantified targets on Fintech for Financial Inclusion and call upon AFI to support members in formulating these commitments and delivering on them.
- ***Strive to learn*** not only from peers in developing and emerging countries, but also advanced economies, reflecting their international

experiences in Fintech development and implementation of innovative or proportionate regulatory approaches through the AFI's joint learning platform.

- ***Leverage Fintech solutions*** to mitigate the impact of de-risking in developing and emerging countries.
- ***Call on financial institutions and private sector stakeholders*** to use Fintech solutions to break gender specific barriers to financial inclusion and reduce the gender gap.
- ***Share their knowledge*** and practices on Fintech solutions among members of the network and beyond, especially those that help in bridging gender-specific barriers to financial inclusion and reduce the gender gap, mitigate climate change risks and building resilience, and contribute to inclusion of forcibly displaced persons.

During the year, the Bank commenced engagement with stakeholders on how to domesticate the Accord in Nigeria.

2.5.16 The Youth Entrepreneurship Development Programme (YEDP)

In 2018, the sum of ₦33.00 million was released to Sterling Bank Plc in favour of 11 projects, under the Youth Entrepreneurship Development Programme (YEDP). This brought the total sum released to Sterling Bank Plc, since inception under the Programme, to ₦109.66 million for 42 projects. Cumulatively, disbursement, under the YEDP, from inception in 2016 to end-December 2018 stood at ₦194.42 million for 74 projects.

2.5.17 Other Development Finance Support Activities

Other channels used by the Bank to enhance credit delivery to the real sector, build capacity of institutions and contribute to the growth of the Nigerian economy in 2018 included:

2.5.17.1 Entrepreneurship Development

Following the exit of the Bank from the operations of five (5) parent Entrepreneurship Development Centres (EDCs) and one (1) outreach centre, terminal audit exercise was conducted on the Centres and major audit findings communicated to the Implementing Agencies (IA) of the centres. The findings included:

- Non-compliance with the e-payment policy of the Federal Government;
- Outstanding training fees yet to be refunded to applicants who paid for but did not participate in trainings;
- No comprehensive insurance coverage by the EDC; and
- Appointment of contractors without following competitive process.

The South East EDC, Umuahia, Abia State, which commenced operations in April 2016 continued its entrepreneurship development activities in the year, whilst the South South outreach centre, Vocational EDC located at Agbor, Delta State commenced operations in May 2018.

2.5.17.2 Microfinance Management

- **Rural Finance Outreach Coordinating Committee (ROCC)**

  The Rural Finance Outreach Coordinating Committee (ROCC) held two meetings in the year under review. The Bank, in collaboration with RUFIN, established the Rural Finance Outreach Coordinating Committees (ROCCs) in the RUFIN states. Rural Finance Institution Building Programme (RUFIN) supports the Bank to organise ROCCs as a veritable platform for stakeholders to share experiences and jointly address challenges confronting the microfinance sub-sector at the state level. Membership of ROCC comprises representatives of the CBN (DFOs), state governments, NAMB, ANMFIN, RUFIN, Federal Department of Co-operatives (State Offices), SMEDAN, NASME, RUFIN MFIs and BOA. The establishment of the Committee has enhanced synergy in microfinance delivery among the various stakeholders at the state level.

- **Management/Monitoring of Non-Bank Microfinance Institutions (NB-MFIs) Database**

  A database to capture the NB-MFIs at branch levels was hosted on the banknet. The application provides information on the activities of NB-MFIs that have attained the threshold of transforming to regulated microfinance institutions as enshrined in the National Microfinance Policy, Regulatory and Supervisory Framework. The application allows NB-MFIs to render financial returns to the Bank on a timely basis.

CHAPTER THREE

THE GLOBAL ECONOMY

Global economy weakened to 3.7 per cent in 2018 from 3.8 per cent in 2017, owing to a number of key developments. These included: trade policy uncertainty, owing to the trade tensions between the US and China; intensified Brexit-related uncertainty; weak financial market sentiment; as well as geopolitical tensions. Thus, consumer and business confidence weakened, slowing activities in the global financial market. In addition, most currencies depreciated against the US dollar, owing primarily to increased investors' appetite for dollar-denominated assets. These developments weakened activities in the global capital market in 2018, with stocks generally bearish. Global inflation generally increased, reflecting recovery in oil prices. Accordingly, central banks in the advanced economies adopted a broadly accommodative monetary policy stance to lift inflation to targets. In the emerging market and developing economies, central banks raised their policy rates to attract capital inflow and rein-in inflationary pressures.

3.1 OUTPUT GROWTH

In 2018, global growth weakened to 3.7 per cent, from 3.8 per cent in 2017, due to the interplay of several forces, notably, trade policy uncertainty, occasioned by trade tensions between the US and China and intensified BREXIT-related uncertainty. Also financial market sentiment reflected in the sharp re-pricing of assets amidst elevated debt burdens, as well as, pockets of geopolitical tensions helped to dampen growth. These factors were, however, moderated by the signing of the US-Mexico-Canada free trade Agreement (USMCA) which replaced the North Atlantic Free Trade Agreement (NAFTA), announcement of a 90-day truce on tariff increases in the US-China trade debacle, as well as a reduction in Chinese tariffs on US car imports.

Accordingly, growth in advanced economies was 2.3 per cent in 2018, slightly lower than the 2.4 per cent in 2017. The less-than-expected growth was caused by slower export growth in the euro area and higher energy prices, which dampened demand. Growth in the United States, however, strengthened to 2.9 per cent in 2018, compared with 2.2 per cent in 2017, supported by sizable fiscal stimulus and relatively loose financial conditions, despite the Fed's ongoing monetary policy normalisation. Growth slowed to 1.8 per cent in the euro area in 2018, compared with 2.4 per cent in 2017, reflecting weaker-than-projected performance in the first half of 2018. The development was driven by higher energy prices, which dampened demand, political uncertainty and industrial actions.

In the United Kingdom, growth moderated to 1.4 per cent in 2018, from 1.8 per cent in 2017. The slowdown was driven by weak growth in the first quarter of 2018, partly due to weather-related factors and the negative effects of prolonged BREXIT-related uncertainty. Japan's growth dipped to 0.9 per cent in 2018, down from the strong growth of 1.9 per cent in 2017. The softening reflected the contraction in the first quarter of 2018, owing, largely, to effect of natural disaster.

Growth in emerging market and developing economies moderated to 4.6 per cent in 2018, from 4.7 per cent in 2017. Emerging and developing Asia's growth remained at 6.5 per cent in 2018, supported by a domestic demand-led momentum in the Indian economy, despite the slowdown of the Chinese economy.

In China, growth slowed to 6.6 per cent in 2018, from 6.9 per cent in 2017, reflecting slowing external demand, impact of trade disputes with the United States, as well as, the tight regulatory oversight of the property sector and shadow banking activities. Conversely, India's growth strengthened to 7.3 per cent in 2018, compared with 6.7 per cent in 2017. The development reflected the strengthening in investment and robust private consumption, reversing the transitory shocks due to the currency exchange initiative and implementation of the Goods and Services Tax (GST).

Similarly, the Russian economy grew by 1.7 per cent in 2018, up from 1.5 per cent in 2017, supported by higher oil prices and recovering domestic demand. The drag on the country's growth prospects arising from the weaker oil price outlook, however, remained.

In the Middle East and North Africa (MENA) region, growth improved to 2.4 per cent in 2018, from 2.2 per cent in 2017 due, largely, to a pick-up in oil prices. In Saudi Arabia, output picked-up sharply to 2.2 per cent in 2018, in contrast to the 0.9 per cent contraction in 2017. The development was driven by the expansion in non-oil economic activity and projected increase in crude oil production in line with the revised Organisation of the Petroleum Exporting Countries Plus agreement. The Egyptian economy grew by 5.3 per cent in 2018, up from 4.2 per cent in 2017, mirroring the recovery in tourism, rising natural gas production, and improvement in business and consumer confidence due to the IMF- supported reform programme.

In sub-Saharan Africa, growth remained strong at 2.9 per cent in 2018, same as in 2017, reflecting a more supportive external environment, including higher oil prices and still-loose global financial conditions. Growth performance, however, varied significantly across countries in the region. Among the major economies of the region, growth in Nigeria strengthened to 1.9 per cent in 2018, from 0.8 per cent in 2017. The improvement reflected the combined effects of recovery in oil prices, stronger non-oil sector performance as well as stability of the domestic prices. In South Africa, growth moderated to 0.8 per cent in 2018, from 1.3 per cent in 2017, amid uncertainty in the run-up to the country's general elections in 2019. In Angola, the contraction in real output moderated by 0.1 per cent in 2018, compared with the contraction of 2.5 per cent in 2017.

Table 3.1: Changes in World Output and Prices, 2014-2018 (per cent)

Region/Country	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
World Output	**3.6**	**3.4**	**3.2**	**3.8**	**3.7**	**3.2**	**2.8**	**2.9**		
Advanced Economies	**2.1**	**2.2**	**1.7**	**2.4**	**2.3**	**1.4**	**0.3**	**0.8**	**1.7**	**2.0**
United states	**2.6**	**2.9**	**1.5**	**2.2**	**2.9**	**1.6**	**0.1**	**1.3**	**2.1**	**2.4**
Japan	0.3	1.1	0.9	1.9	0.9	2.8	0.8	-0.1	0.5	1.2
Germany	1.9	1.5	1.5	2.5	1.5	0.8	0.1	0.4	1.7	1.8
France	0.9	1.1	1.1	2.3	1.5	0.6	0.1	0.3	1.2	1.9
Italy	0.1	0.8	0.8	1.6	1.0	0.2	0.1	-0.1	1.3	1.3
United Kingdom	3.1	2.2	1.9	1.8	1.4	1.5	0.0	0.7	2.7	2.5
Euro Area	1.3	2.0	1.8	2.4	1.8	0.4	0.0	0.2	1.5	1.7
Other Advanced Economies	**2.6**	**2.5**	**2.5**	**2.8**	**2.8**	**1.5**	**0.5**	**1.0**	**1.8**	**2.0**
Commonwealth of Independent States (CIS)	1.1	-2.2	-2.2	2.1	2.4	8.1	15.5	8.3	5.5	4.5
Regional Groups										
Emerging & Developing Europe	3.9	4.7	4.4	6.0	3.8	4.1	3.2	4.3	4.3	4.9
Russia	0.7	-2.8	-0.2	1.5	1.7	7.8	15.5	7.0	3.7	2.8
Latin America and the Caribbean	1.2	0.1	-0.7	1.3	1.1	4.9	5.5	5.6	6.0	6.1
Asia	6.8	6.6	6.4	6.5	6.5	3.4	2.7	2.8	2.4	3.0
Sub-Saharan Africa	5.1	3.4	1.4	2.9	2.9	6.3	7.0	11.3	11.0	8.6
Middle East	2.8	2.5	2.5	2.2	2.4	7.5	6.0	5.1	6.4	10.8
China	7.3	6.9	6.7	6.9	6.6	2.0	1.4	2.0	1.6	2.2

Source: World Economic Outlook (WEO), October 2018, and January 2019

3.2 GLOBAL INFLATION

Globally, consumer prices generally increased during the year, reflecting the recovery in oil prices. Global oil prices, however, fell significantly in the last quarter of 2018 as a result of over-supply from sustained growth in oil production in the United States; increased supply by the OPEC and the Russian Federation; as well as the United States' temporary waivers on sanctions on oil-import from Iran. Other commodity prices, especially metals and to a lesser extent food prices, declined due to heightened trade tensions and weaker demand from China. Inflation, however, remained below targets in most advanced economies, reflecting weak consumer and business confidence.

Inflation increased modestly in the advanced economies although it remained largely contained. Headline inflation in advanced economies inched up to 2.0 per cent in 2018, from 1.7 per cent in 2017. In the United States, inflation increased to 2.4 per cent in 2018, above 2.1 per cent in 2017, reflecting recovery in oil prices and the effect of a sizable fiscal expansion. In the euro area, headline inflation rose to 1.7 per cent in 2018, up from 1.1 per cent in 2017, supported by easing financial conditions and positive output gaps. In Japan, headline inflation increased to 1.2 per cent in 2018, from 0.5 per cent in 2017, following rising energy prices, on the back of weak wage growth and stickiness in inflation expectations. In the United Kingdom, inflation, however, moderated to 2.1 per cent in 2018, from 2.4 per cent in 2017, as the pass-through effects of the currency's depreciation waned.

In emerging market and developing economies, headline inflation also increased to 5.0 per cent in 2018 (excluding Venezuela), above 4.3 per cent in 2017, owing to the impact of currency depreciations and rising energy prices.

In China, headline inflation accelerated to 2.2 per cent in 2018, up from 1.6 per cent in 2017, driven by higher food and energy prices. Inflation in India rose to 4.7 per cent in 2018, from 3.6 per cent in 2017, due to pressures from rising demand and fuel prices. Inflation rose in Brazil to 3.7 per cent in 2018, from 3.4 per cent in 2017, as monetary policy remained supportive against the backdrop of slowly recovering food prices, after a significant drop caused by a bumper harvest in 2017.

In sub-Saharan Africa, inflationary pressures broadly softened. Headline inflation dropped to 8.6 per cent in 2018, from 11.0 per cent in 2017. In South Africa, inflation moderated to 4.8 per cent in 2018, from 5.3 per cent in 2017, as the effects of drought on agricultural production waned. In Nigeria, headline inflation tapered to 12.4 per cent in 2018, from 16.5 per cent in 2017, on account of sustained non-expansionary monetary policy and moderation in food prices.

3.3 GLOBAL COMMODITY DEMAND AND PRICES

Global commodity prices generally softened in 2018, on account of weak global economic activity. The slow growth in China and the tepid business and consumer confidence in the face of the ongoing trade tensions between the US and China weakened global trade and commodity prices. In particular, prices of metals and agricultural commodities softened since August, partly due to subdued demand from China. Global crude oil prices, however, generally recovered before declining later in the year, due to excess supply, caused by sustained growth in shale oil production in the United States, and increase in supply by the OPEC and the Russian Federation, as well as, the United States temporary waivers of sanctions on oil-import from Iran.

The *IMF Energy Price Index* (comprised of crude oil, natural gas and coal price indices) increased significantly to 131.5 from 100.6 points in 2017, due mainly to commodity-specific supply constraints, including the OPEC plus Agreement, rising US interest rates and appreciation of the US dollar. Coal and natural gas prices were propped up by the increased demand for electricity in Europe and Asia arising from unusually hot weather during the year.

The Food and Agriculture Organisation's *(FAO) Food Price Index* (FPI) averaged 168.5 points, lower by 6.1 points (3.5%) from 174.6 points in 2017, due to the dampening effect of trade tensions on commodity prices. The only year-on-year increase was recorded by cereals (9.1%). On the other hand, sugar price index decreased by 49.8 points (21.9%), followed by vegetable oils (14.7%), dairy (4.6%), and meat (2.2%) on a year-on-year basis during the review period.

The *FAO Cereal Price Index* averaged 165.3 points, representing an increase of 13.7 points (9.1%), from 151.6 points in 2017. The increase was driven, largely, by weather-related concerns over wheat harvests in Argentina and reduced export supplies, coupled with poor weather conditions in the southern hemisphere which affected maize supplies.

The *FAO Dairy Price Index* decreased by 9.3 points (4.6%) to 192.9 points, from 202.2 points in 2017. The development was attributed to competition, market conditions and declining dairy demand in some parts of the US.

The *FAO Vegetable Oil Price Index* averaged 144.0 points, representing a decrease of 24.8 points (14.7%), below the 168.8 points in 2017. The marginal decline reflected reduced demand by India and depreciation of the rupee, which led to a fall in the international prices of edible oils.

The *FAO Sugar Price Index* averaged 177.5 points, representing a significant decrease of 49.8 points (21.9%) from 227.3 in 2017. The downward pressure on sugar price was traceable to a global supply glut which led to a second consecutive annual price decline. The sugar market was stagnant as rising output from India has replaced Brazil as the largest global sugar producer.

The *FAO Meat Price Index* decreased by 2.2 per cent to 166.4 points, from 170.1 in 2017, reflecting increased US meat export production that was affected by tariffs from trading partners.

3.4 WORLD TRADE

Global trade slowed in 2018, reversing the rebound experienced in 2017, reflecting economic and non-economic developments. These included: the general uncertainty in the global environment due to trade disputes between the US and China; the reduction in global industrial production, following weaker capital spending and investment by firms; slowdown in the Chinese economy; as well as increased political risks and policy uncertainty across a number of countries. Others were: the intensified Brexit-related uncertainty, worsened by a stronger possibility of a "no deal"; as well as a faster-pace of policy normalisation in the advanced economies. As a consequence, trade volumes deteriorated in both advanced and emerging market and developing economies.

World trade growth slowed to 4.2 per cent in 2018, compared with 5.4 per cent in 2017. In the advanced economies, aggregate import grew by 3.7 per cent, while export grew by 3.4 per cent in 2018. Accordingly, terms of trade in the advanced economies deteriorated by 0.1 per cent, compared with 0.4 per cent in 2017. In the emerging market and developing economies, the volumes of import and export grew by 6.0 and 4.7 per cent, respectively. In contrast, the terms of trade in the emerging market and developing countries, improved by 1.6 per cent in 2018, compared with 0.6 per cent in 2017.

Table 3.2: World Trade Volumes, 2014 - 2018										
(Average Annual Percentage Change in Trade in Goods and Services)										
	Advanced Economies					Emerging and Developing Economies				
Volume of Trade	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
Exports	3.6	3.1	2.2	3.8	3.4	3.9	3.9	2.5	4.8	4.7
Imports	3.7	3.9	2.7	4.0	3.7	4.4	1.3	2.0	4.4	6.0
Terms of Trade	0.24	1.6	1.2	-0.4	-0.1	0.02	-4.7	-1.2	0.1	1.6

Source: WEO, October, 2018 and January, 2019

3.5 INTERNATIONAL FINANCIAL MARKETS

The global financial market had a mixed performance in the review period, influenced by a number of factors, most notably: a generally accommodative global financial condition; the intensified Brexit-related uncertainty; the ongoing trade tensions between the United States and China; and the monetary policy divergence in the advanced economies. Others were: the increase in global crude oil supply, on the back of rapid expansion in the US shale oil production and its price implications; geopolitical tensions; as well as country-level factors. In general, most central banks in the advanced economies kept policy rates unchanged to achieve inflation targets during the review period. Central banks in emerging market and developing economies also broadly kept rates unchanged for price stability and growth mandates.

3.5.1 Money Markets

The global money market was shaped by a combination of key developments, which included: concerns about slowdown of the Chinese economy; weak consumer and investors' confidence; uncertainty surrounding Brexit negotiations, especially with the imminent possibility of a "no deal"; and the trade tensions between the US and China. Others were: over-supply of crude oil, impacting its global prices; the generally accommodative monetary stance in the advanced economies; as well as geopolitical tensions in many regions.

The remarkable improvement in macroeconomic conditions in the United States increased investors' appetite for dollar-denominated assets and strengthened business investment. This development, along with the US inward-looking policy, affected the economies of its trading partners. Consequently, capital inflow to emerging market and developing economies was strained, with implications for their external reserves. In commodity-exporting emerging markets and developing economies, however, there was a pickup in their reserves, on account of improved crude oil prices earlier in the year.

In general, the reactions of monetary authorities to these developments were varied. The advanced economies broadly adopted monetary easing stance, while the emerging market and developing economies generally retained monetary tightening stances to rein-in inflationary pressures, build external reserves and strengthen domestic currencies.

3.5.2 Capital Markets

Global stock markets were generally bearish. In advanced economies, stock markets performed poorly, stoked by weak investors' confidence caused by the US and China trade disputes. In the euro area, Brexit-related uncertainty intensified, weighing on the EU economy, particularly its and its stock markets, despite the ECB's monetary accommodation stance, easing financial conditions. In the emerging market and developing economies, equity markets also lost ground, due to the diminished capital inflow, owing to increased investors' appetite for dollar-denominated assets.

Accordingly, the global stock markets were mostly bearish in 2018. In North America, the US S&P 500, the Canadian S&P/TSX Composite and Mexican Bolsa indices decreased by 6.24, 11.64 and 15.63 per cent, respectively. In South America, the Brazilian Bovespa and the Argentine Merval indices increased by 19.12 and 3.43 per cent, respectively, while the Colombian COLCAP index decreased by 11.95 per cent. In Europe, the FTSE 100, French CAC 40 and the German DAX indices decreased by 12.48, 10.95 and 18.10 per cent, respectively, in 2018.

In Asia, Japan's Nikkei 225 and China's Shanghai Stock Exchange-A indices decreased by 12.08 and 25.47 per cent, respectively, while India's BSE Sensex index increased by 5.91 per cent.

In Africa, the Nigerian NSE ASI, the Egyptian EGX CASE 30, the Ghanaian GSE, South African JSE All-Share, and the Kenyan Nairobi NSE 20 indices decreased by 17.81, 11.37, 23.66, 13.21 and 11.6 per cent, respectively. The Nigerian equities market was, however, supported by increased capital inflow and recovery in crude oil prices earlier in the year, thereby boosting external reserves and strengthening the domestic currency.

Table 3.3: Selected International Stock Markets Indices as at Dec 31, 2018

Country	Index	29-Dec-17	29-Mar-18	29-Jun-18	28-Sep-18	31-Dec-18	% Change b/w (a) and (e)
AFRICA		(a)	(b)	(c)	(d)	(e)	(f)
Nigeria	NSE All-Share Index	38,243.19	41,504.51	38,278.55	32,766.37	31,430.50	-17.81
South Afric	JSE All-Share Index	59,504.67	55,474.52	57,610.98	55,708.47	52,736.86	-11.37
Kenya	Nairobi NSE 20 Share index	3,711.94	3,845.34	3,285.73	2,875.51	2,833.84	-23.66
Egypt	EGX CASE 30	15,019.14	17,595.88	16,348.55	14,616.47	13,035.77	-13.21
Ghana	GSE All-Share Index	2,579.72	3,366.86	2,878.66	2,882.87	2,499.33	-3.12
NORTH AMERICA							
US	S&P 500	2,673.61	2,640.87	2,718.36	2,913.98	2,506.85	-6.24
Canada	S&P/TSX Composite	16,209.13	15,367.29	16,277.73	16,073.14	14,322.86	-11.64
Mexico	Bolsa	49,354.42	46,124.85	47,663.20	49,504.16	41,640.27	-15.63
SOUTH AMERICA							
Brazil	Bovespa Stock	76,402.08	85,365.56	72,762.51	79,342.42	91,012.31	19.12
Argentina	Merval	30,065.61	31,114.93	26,037.01	33,461.77	31,096.63	3.43
Columbia	COLCAP	1,513.65	1,455.52	1,577.01	1,506.07	1,332.80	-11.95
EUROPE							
UK	FTSE 100	7,687.77	7,056.61	7,636.93	7,510.20	6,728.13	-12.48
France	CAC 40	5,312.56	5,167.30	5,323.33	5,493.49	4,730.69	-10.95
Germany	DAX	12,917.64	12,096.73	12,306.00	12,246.73	10,580.19	-18.10
ASIA							
Japan	NIKKEI 225	22,764.94	21,454.30	22,304.51	24,120.04	20,014.77	-12.08
China	Shanghai SE A	3,463.48	3,318.71	2,982.00	2,821.35	2,581.37	-25.47
India	BSE Sensex	34,056.83	32,968.68	35,423.48	36,227.14	36,068.33	5.91

Source: Bloomberg

3.5.3 The International Foreign Exchange Market

Major global currencies depreciated against the U.S. dollar during the review period, due to a number of developments. These included: sustained normalisation of US monetary policy; weak global activity, as well as, investors' appetite for dollar-denominated assets. Others were Brexit-related uncertainty, and, geopolitical tensions. These developments negatively impacted portfolio inflow and external reserves, thereby weakening many currencies.

In advanced economies, all major currencies depreciated against the U.S. dollar. The major European currencies: the British pound, the euro and the Russian ruble, depreciated against the US dollar by 5.13, 4.60 and 17.25 per cent, respectively. In North America, the Canadian dollar depreciated by 7.35 per cent against the US dollar. In Asia, the Japanese yen, however, appreciated against the US dollar by 2.43 per cent.

In emerging market and developing economies, most currencies also depreciated against the US dollar. In Asia, the Chinese yuan and the Indian rupee depreciated by 5.38 and 8.46 per cent, respectively. In South America, the Brazilian real, Argentine peso and the Colombian peso depreciated by 14.69, 50.57 and 8.18 per cent, respectively, against the US dollar. In North America, the Mexican peso appreciated marginally by 0.15 per cent against the US dollar.

Comparatively, the Nigerian naira, South African rand, the Egyptian pound and the Ghanaian cedi depreciated against the US dollar by 0.33, 12.24, 0.67 and 8.54 per cent, respectively, while the Kenyan shilling appreciated marginally by 1.23 per cent.

In general, the Nigerian naira was the least depreciated among the currencies surveyed, while the Japanese yen was the most appreciated in the review period.

Table 3.4 Exchange Rates of Selected Countries (Value in currency units to US$)

	Currency	31-Dec-16	29-Dec-17	31-Dec-18	% Change (31Dec16/30 Dec17)	% Change (31 Dec17/31 Dec18)
AFRICA					MTM% App/Dep	YTD % App/Dep
Nigeria	Nigeria Naira	305.00	306.00	307.00	-0.33	-0.33
South Africa	South Africa Rand	13.74	12.62	14.38	8.87	-12.24
Kenya	Kenya Shilling	102.51	103.10	101.85	-0.57	1.23
Egypt	Egypt Pound	18.14	17.81	17.93	1.85	-0.67
Ghana	Ghana Cedi	4.24	4.50	4.92	-5.78	-8.54
NORTH AMERICA						
Canada	Canada Dollar	1.38	1.26	1.36	9.52	-7.35
Mexico	Mexico Peso	17.21	19.66	19.63	-12.36	0.15
SOUTH AMERICA						
Brazil	Brazil Real	3.96	3.31	3.88	19.64	-14.69
Argentina	Argentina Peso	12.93	18.62	37.67	-30.56	-50.57
Colombia	Colombia Peso	3174.50	2986.84	3253.00	6.28	-8.18
EUROPE						
UK	UK Pound	0.68	0.74	0.78	-8.11	-5.13
Euro Area	Euro Area Euro	0.92	0.83	0.87	10.84	-4.60
Russia	Russia Ruble	72.85	57.63	69.64	26.41	-17.25
ASIA						
Japan	Japan Yen	120.20	112.69	110.02	6.66	2.43
China	China Yuan	6.49	6.51	6.68	-0.31	-5.38
India	India Rupee	66.15	63.87	69.77	3.57	-8.46

Source: Bloomberg, 2019
MTM – Month-to-Month
YTD = Year to Date

3.5.4 Central Bank Policy Rates

Most central banks adopted a cautious approach in 2018. In advanced economies, central banks broadly adopted a monetary easing stance to achieve inflation targets and respond to global and domestic developments. The developments included: trade tensions between the US and China; recovery of crude oil prices; weak global economic activity; investors' appetite for dollar-denominated assets and declining investors' optimism on the back of trade tensions. In general, headline inflation still remained largely weak in most advanced economies, justifying data-dependent and cautious normalisation policy. However, central banks in emerging market and developing economies tightened to rein-in inflationary pressure and capital inflow.

In advanced economies, central banks adopted mixed monetary policy stance. The Federal Reserve raised its policy rate four (4) times in 2018, within the range of 1.00 to 2.50 per cent. It also signaled a more gradual pace of rate hikes in future. The Bank of England (BoE) raised its policy rate from 0.50 to 0.75 per cent in August 2018. The European Central Bank, retained zero per cent interest rate in 2018, in pursuance of its amply accommodative monetary policy.

In emerging market and developing economies, monetary policy stance was also mixed. Most central banks raised rates in 2018 due to concerns about inflationary pressures from earlier oil price increases, closing output gaps and pass-through from currency depreciations. Some central banks lowered rates to address growth concerns, while others maintained rates on hold and acted to ease domestic financial conditions.

The Central Bank of Brazil lowered its policy rate two (2) times, to 6.75 per cent in February and to 6.5 per cent in March to stimulate growth. The South African Reserve Bank reduced its policy rate from 6.75 per cent to 6.50 per cent in March and raised it back to 6.75 per cent in November. In Ghana, policy rate was reduced twice from 20.00 per cent to 17.00 per cent to strengthen domestic currency.

In India, policy rate was increased twice from 6.25 to 6.75 per cent in 2018. The Peoples Bank of China retained its policy rate at 4.35 per cent throughout 2018. The Central Bank of Nigeria (CBN) also retained monetary policy rate (MPR) at 14.0 per cent throughout 2018, mainly to moderate inflationary pressure and encourage foreign capital inflow.

Table 3.5: Monetary Policy Rates of Selected Countries, 2017-2018

	Ghana	S. Africa	Kenya	Nigeria	Brazil	Chile	USA	Euro Area	India	Russia	China	UK	Indonesia
Oct-17	10	6.75	10	14	7.5	2.5	1-1.25	0	6.25	8.25	4.35	0.25	4.25
Nov-17	10	6.75	10	14	7.5	2.5	1-1.25	0	6.25	8.25	4.35	0.50	4.25
Dec-17	10	6.75	10	14	7	2.5	1.25-1.5	0	6.25	7.75	4.35	0.5	4.25
2018													
Jan-18	20	6.75	10	14	7	2.5	1.25-1.5	0	6.25	7.5	4.35	0.5	4.25
Feb-18	20	6.75	10	14	6.75	2.5	1.25-1.5	0	6.25	7.5	4.35	0.5	4.25
Mar-18	18	6.5	9.5	14	6.5	2.5	1.5-1.75	0	6.25	7.25	4.35	0.5	4.25
Apr-18	18	6.5	9.5	14	6.5	2.5	1.5-1.75	0	6.25	7.25	4.35	0.5	4.25
May-18	17	6.5	9.5	14	6.5	2.5	1.5-1.75	0	6.25	7.25	4.35	0.5	4.75
Jun-18	17	6.5	9.5	14	6.5	2.5	1.75-2	0	6.5	7.25	4.35	0.5	5.25
Jul-18	17	6.5	9	14	6.5	2.5	1.75-2	0	6.5	7.25	4.35	0.5	5.25
Aug-18	17	6.5	9	14	6.5	2.5	1.75-2	0	6.75	7.25	4.35	0.75	5.5
Sep-18	17	6.5	9	14	6.5	2.5	3-2.25	0	6.75	7.5	4.35	0.75	5.75
Oct-18	17	6.5	9	14	6.5	2.75	2-2.25	0	6.75	7.5	4.35	0.75	5.75
Nov-18	17	6.75	9	14	6.5	2.75	2-2.25	0	6.75	7.5	4.35	0.75	6
Dec-18	17	6.75	9	14	6.5	2.75	2.25-2.5	0	6.75	7.5	4.35	0.75	6

Source: Bloomberg

3.6 THE IMPACT OF GLOBAL ECONOMIC DEVELOPMENTS ON NIGERIA'S ECONOMY

In the review period, the Nigerian economy was shaped by a confluence of global developments. The key developments included: weak financial market sentiment; a broadly accommodative global financial condition; trade policy uncertainty; a pickup in crude oil prices, as well as, the monetary policy normalisation in the advanced economies. Others were: concerns about China's growth outlook; the increase in global crude oil supply, on the back of rapid expansion in the US shale oil production and its price implications; geopolitical tensions; as well as country-idiosyncratic factors.

The Nigerian financial market was significantly impacted by these global economic and financial developments. The developments led to improved foreign investors' optimism earlier in the year, encouraging capital inflow, supported by modest recovery in crude oil prices. The external reserves improved significantly, thereby strengthening the domestic currency. The domestic currency generally stabilised in 2018. Consequently, inflation assumed a downward trajectory during the review period, owing to the Bank's non-expansionary monetary policy. Despite these favourable developments, capital outflow intensified in the last half of the year, due to uncertainty surrounding the 2019 general elections.

Accordingly, the domestic capital market suffered significant losses as the Nigeria All-Share Index (ASI) fell by 17.81 per cent to 31,430.50 at end-December 2018, from 38,243.19 at end-December 2017. Overall, however, global developments, including increased capital inflow and a recovery in crude oil prices boosted external reserves and fiscal receipts, encouraging investments in non-oil sector and infrastructure, which stimulated economic activity.

CHAPTER FOUR

FINANCIAL SECTOR DEVELOPMENTS

The Bank maintained a non-expansionary monetary policy stance to rein-in inflation and stabilise the foreign exchange market in 2018. The monetary policy rate (MPR) and cash reserve ratio (CRR) were retained at 14.00 per cent and 22.50 per cent, respectively, during the year. Also, the asymmetric corridor around the MPR remained at +200 and -500 basis points and liquidity ratio (LR) retained at 30.0 per cent. Growth in major monetary aggregates was mostly below the targets for fiscal 2018.

Indicators of financial sector development were mixed in 2018. There was improvement in the systemic relevance of the banking sector, with the ratio of M_3 to GDP at 26.2 per cent, 0.9 basis point above the level at end-December 2017. Similarly, financial savings increased in 2018; and there was an improvement in intermediation efficiency indicator, measured by the ratio of currency outside banks to broad money supply, which stood at 5.7 per cent, compared with 6.2 per cent at end-December 2017. There was, however, a decline in financing condition with the aggregate credit to GDP ratio at 21.6 per cent, down from 22.8 per cent in 2017. Also, the ratio of private sector credit to GDP fell to 17.8 per cent from 19.6 per cent in 2017. The banking system assets/GDP ratio fell to 42.6 per cent at end-December 2018, from 45.2 per cent at end-December 2017. Total money market assets outstanding fell by 1.9 per cent below the level at end-December 2017, due largely, to the decrease in the bankers' acceptances and Nigerian treasury bills outstanding.

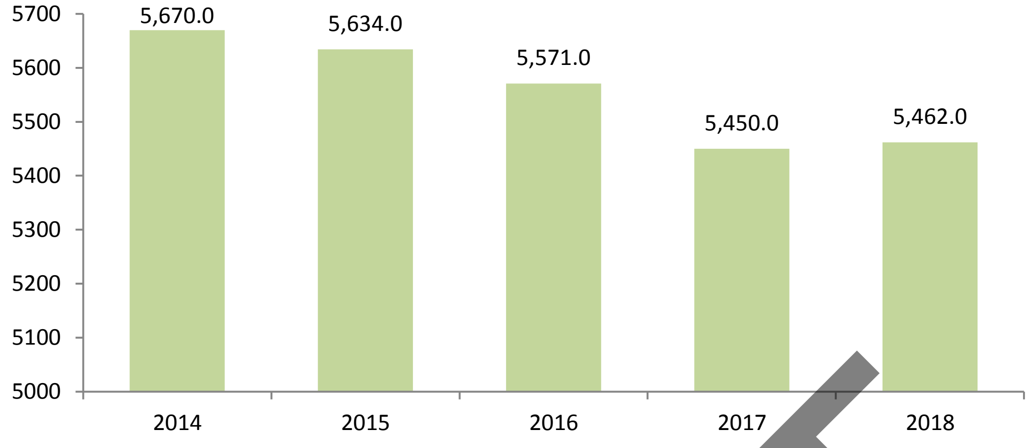
The structure of Nigerian banking sector was unchanged in the review period as the number of licensed banks stood at 27, as in the preceding year. Activities on the Nigerian Stock Exchange were bearish in 2018, as most market indices trended downward. Total market capitalisation of listed securities and the All-Share Index fell by 41.6 and 42.3 per cent, respectively. Aggregate volume rose by 0.8 per cent, while the value of traded securities fell by 6.2 per cent.

4.1 INSTITUTIONAL DEVELOPMENTS

4.1.1 Growth and Structural Changes

The structure of the Nigerian banking sector was unchanged in the review period as the number of licensed banks stood at 27, same as in the preceding year. The licensed banks comprised 21 commercial banks, five (5) merchant banks and one (1) non-interest bank. Ten (10) commercial banks had international authorisation, while nine (9) and two (2) had national and regional authorisation, respectively. The five (5) licensed merchant banks had national authorisation. The number of bank branches, increased to 5,462 from 5,450 in 2017.

Figure 4.1: Banks' Branch Network, 2014 – 2018



Source: CBN

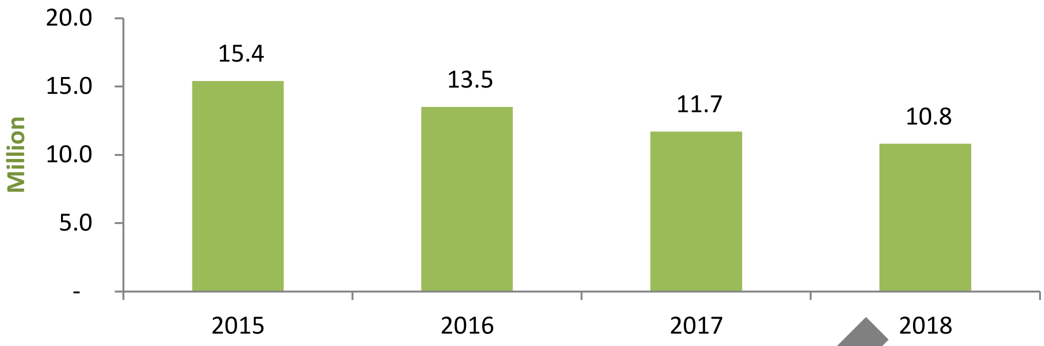
The number of offshore subsidiaries of Nigerian banks stood at fifty-eight at end-December 2018, compared with fifty five in 2017. The number of representative offices, affiliates and international branches of Nigerian banks also remained six (6), one (1) and two (2), respectively, bringing the total number of offshore entities to sixty-seven in 2018.

In the other financial institutions (OFIs) sub-sector, there were 5,488 licensed institutions at end-December 2018, compared with 4,870 institutions in 2017. The total number of OFIs comprised seven (7) DFIs, 35 PMBs, 885 MFBs, 69 FCs and 4,492 BDCs. The increase was as a result of newly licensed OFIs (752 BDCs, 31 MFBs and 18 FCs). Also, the licences of 154 MFBs, 22 FCs and six (6) PMBs were revoked during the year. Sixty two (62) of the MFBs had closed shop, 74 insolvent, and 12 were terminally distressed, while six (6) voluntarily liquidated. Out of the 22 FCs, eight (8) voluntarily liquidated, 13 failed to recapitalise, while one (1) became insolvent. Also, out of the six (6) PMBs, two (2) failed to recapitalise, three (3) voluntarily closed shop and one (1) was insolvent.

4.1.2 Cheques

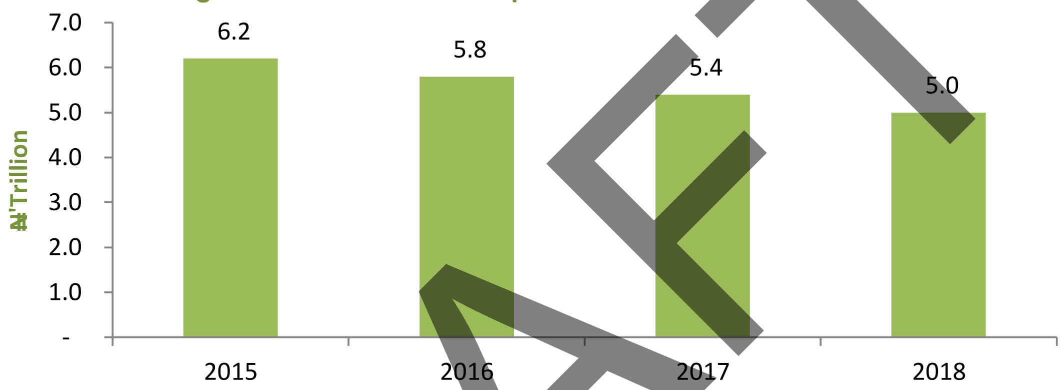
The volume and value of cheques cleared nationwide fell by 16.7 and 7.4 per cent to 9.0 million and ₦5.0 trillion, respectively, compared with 10.8 million and ₦5.4 trillion in 2017. This was attributed to increased adoption of e-payment channels.

Figure 4.2a: Volume of Cheques Cleared, 2015 - 2018



Source: CBN

Figure 4.2b: Value of Cheques Cleared, 2015 - 2018



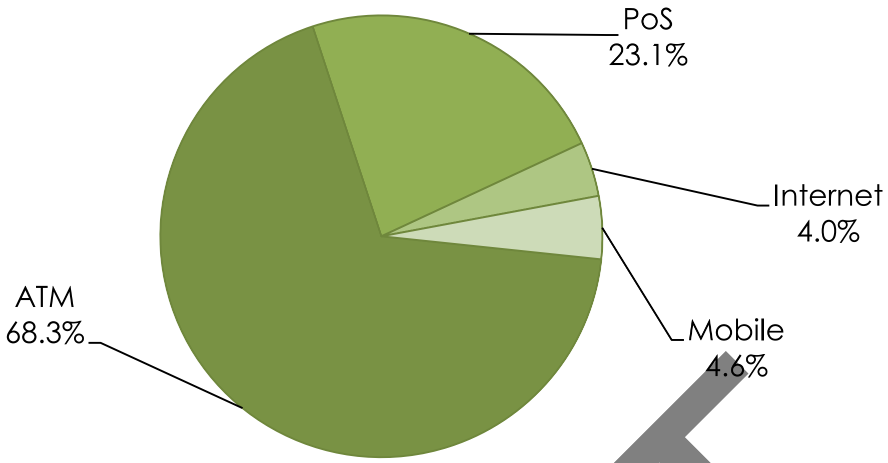
Source: CBN

4.1.3 Use of e-Money Products

The volume and value of payment on different channels (comprising ATM, PoS, Mobile and Internet) rose by 25.3 and 15.0 per cent to 1,282.1 million and ₦10,503.8 billion, respectively, compared with 1,023.6 million and ₦9,134.0 billion in the preceding year.

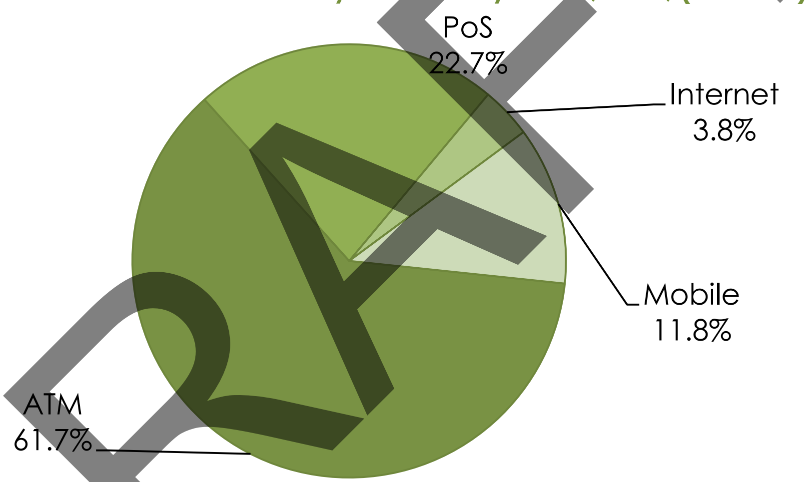
A breakdown of e-payment transactions for 2018, indicated that the ATM remained the most patronised, accounting for 68.3 per cent, followed by PoS terminals and mobile payments with 23.1 and 4.6 per cent, respectively. The web (internet) was the least patronised, and accounted for 4.0 per cent of the total. In terms of value, the ATM accounted for 61.7 per cent, PoS, 22.7 per cent; mobile channels, 11.8 per cent; and web (internet), 3.8 per cent. The rise in e-payment transactions was attributed to increased consumer confidence and awareness in the use of the e-payment channels.

Figure 4.3a: Classification of e-Money Products by Volume, 2018, (Per cent)



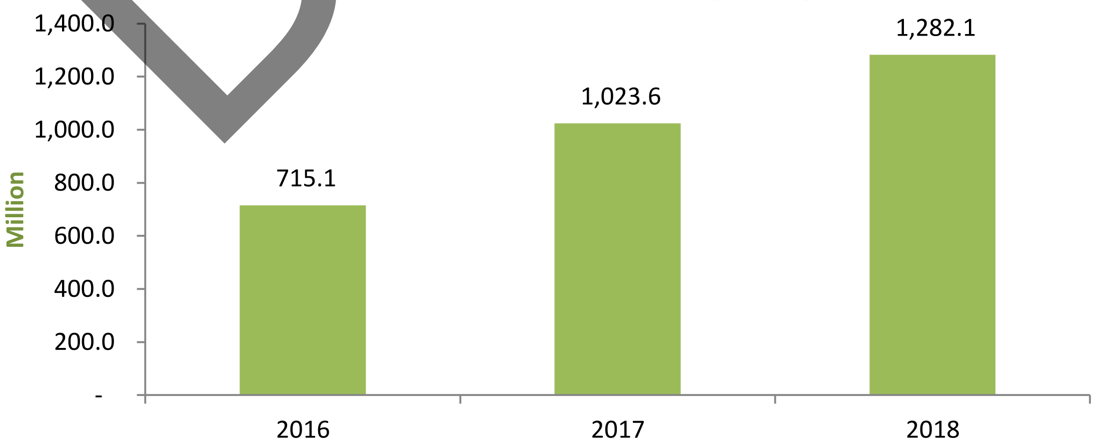
Source: CBN

Figure 4.3b: Classification of e-Money Products by Value, 2018, (Per cent)



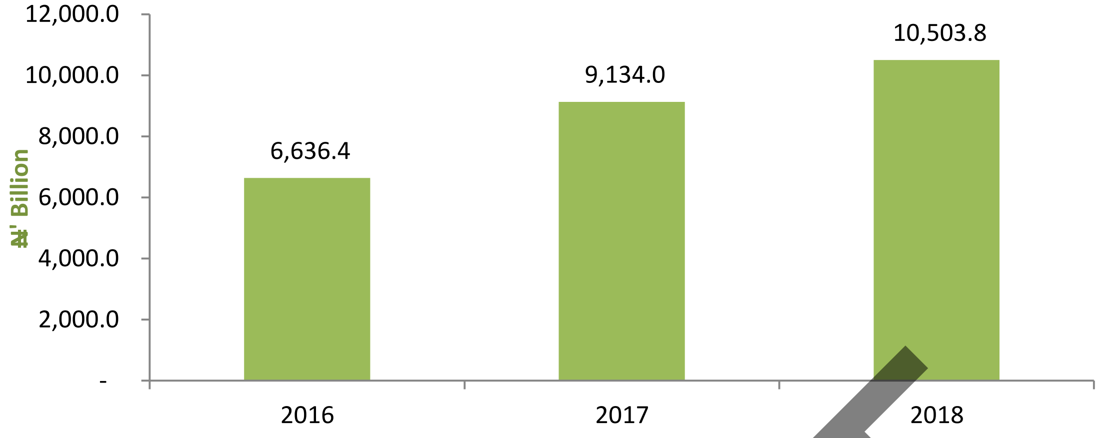
Source: CBN

Figure 4.4a: Volume of Electronic Payments (Million), 2016 - 2018



Source: CBN

Figure 4.4b: Value of Electronic Payments (₦' Billion), 2016 - 2018

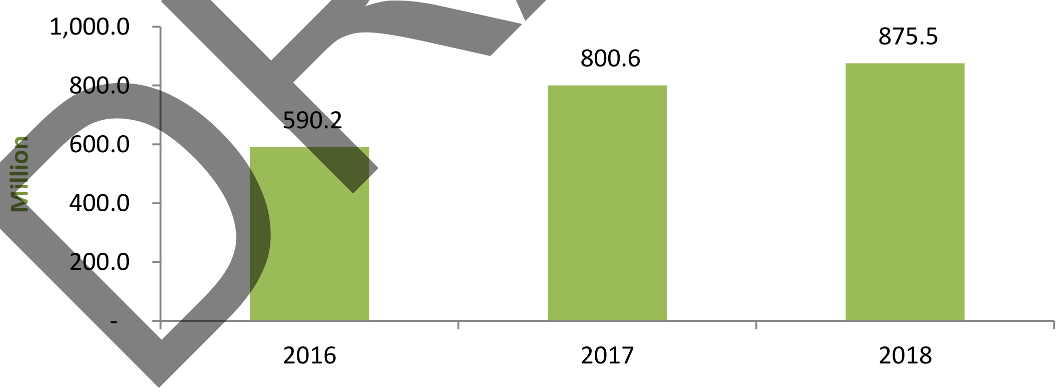


Source: CBN

4.1.3.1 Automated Teller Machine (ATM) Transactions

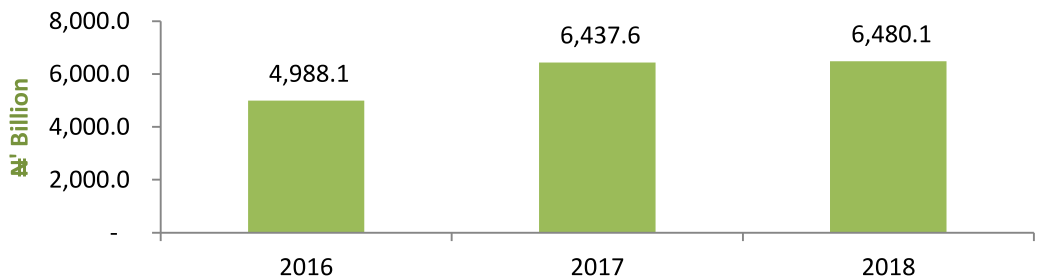
The number of ATMs deployed stood at 18,615 at end-December 2018, indicating an increase of 6.7 per cent, compared with the 17,449 at end-December 2017. ATM transactions increased in both volume and value by 9.4 and 0.7 per cent, to 875.5 million and ₦6,480.1 billion, respectively, at end-December 2018, compared with 800.5 million and ₦6,437.6 billion at end-December 2017.

Figure 4.5a: Volume of ATM Transactions, 2016 – 2018, (Million)



Source: CBN

Figure 4.5b: Value of ATM Transactions, 2016 – 2018, (₦' Billion)

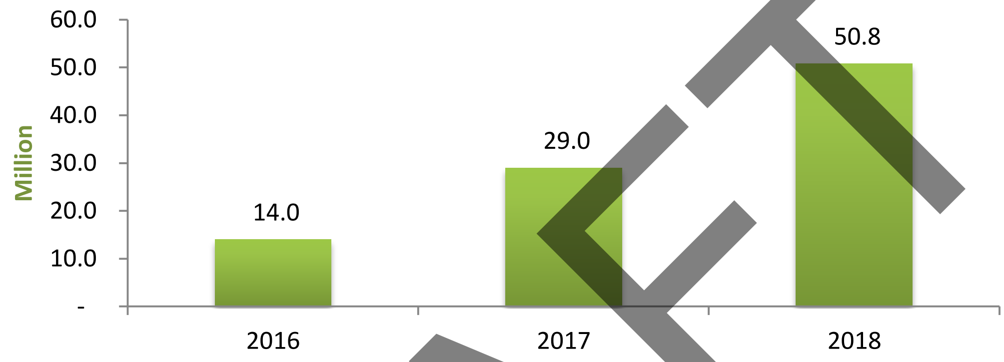


Source: CBN

4.1.3.2 Web Transactions

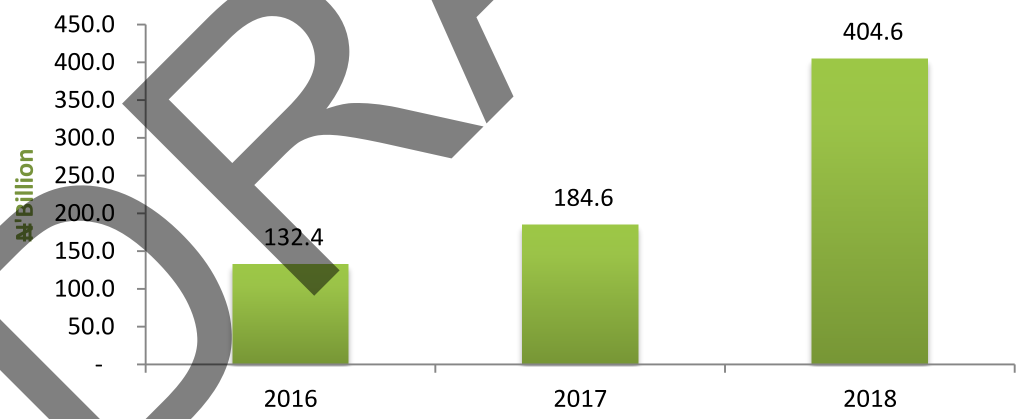
During the review year, the volume and value of transactions on the web increased by 75.2 and 119.2 per cent to 50.8 million and ₦404.6 billion, respectively, at end-December 2018, compared with 29.0 million and ₦184.6 billion at end-December 2017. The significant rise in internet payments platform was attributed to increased consumer acceptance.

Figure 4.6a: Volume of Web Transactions, 2016 – 2018 (Million)



Source: CBN

Figure 4.6b: Value of Web Transactions, 2016 – 2018 (₦' Billion)

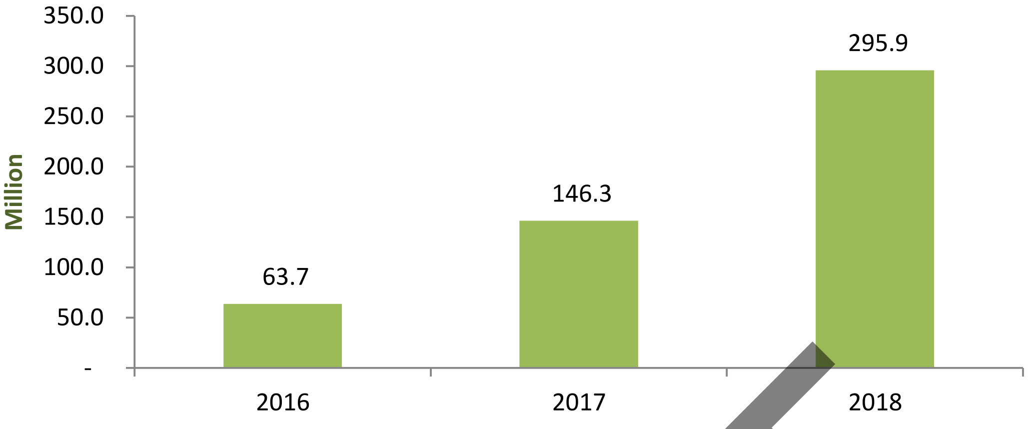


Source: CBN

4.1.3.3 Point-of-Sale (PoS) Transactions

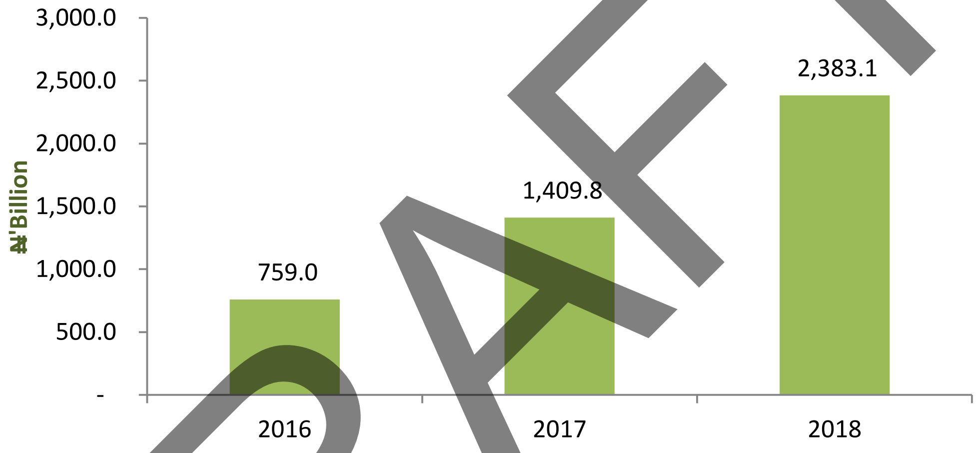
The volume and value of PoS transactions increased by 102.3 and 69.0 per cent to 295.9 million and ₦2,383.1 billion, respectively, at end-December 2018, compared with 146.3 million and ₦1,409.8 billion in 2017. The rise was attributed to increased public confidence in the use of the terminal.

Figure 4.7a: Volume of PoS Transactions, 2016 – 2018 (Million)



Source: CBN

Figure 4.7b: Value of PoS Transactions, 2016 – 2018 (₦' Billion)

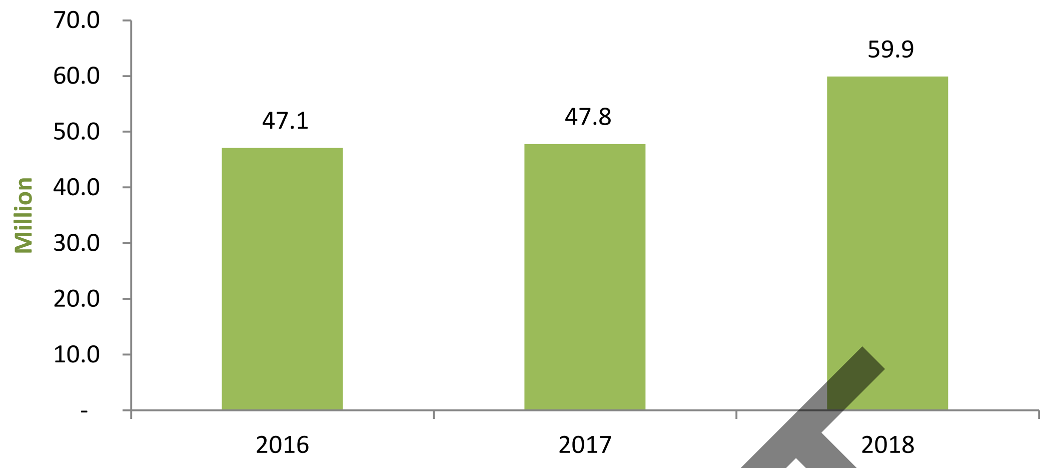


Source: CBN

4.1.3.4 Mobile Payments

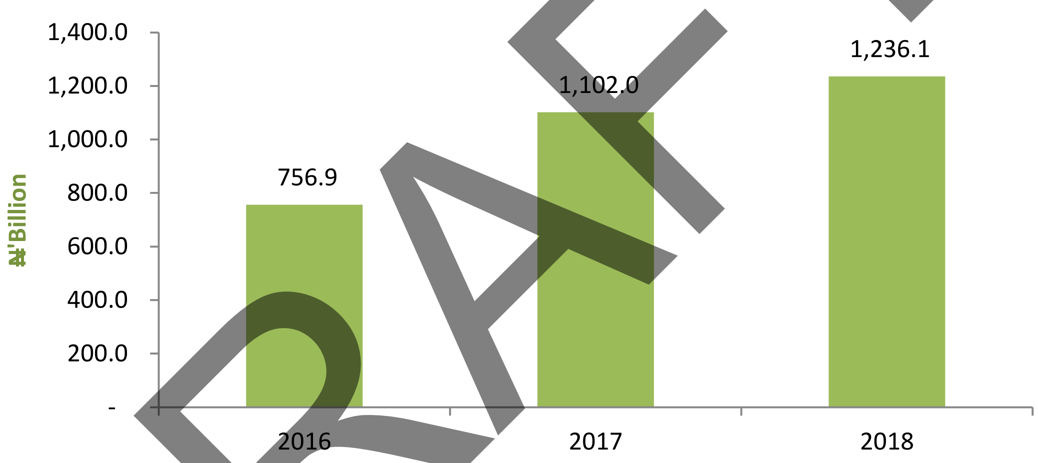
Mobile payments increased in both volume and value by 25.3 and 12.2 per cent in 2018 to 59.9 million and ₦1,236.1 billion, respectively, compared with 47.8 million and ₦1,102.0 billion in 2017. The increase in both volume and value of transactions was attributed to increased awareness and confidence in the usage of this channel.

Figure 4.8a: Volume of Mobile Transactions, 2016 – 2018 (Million)



Source: CBN

Figure 4.8b: Value of Mobile Transactions, 2016 – 2018 (₦' Billion)



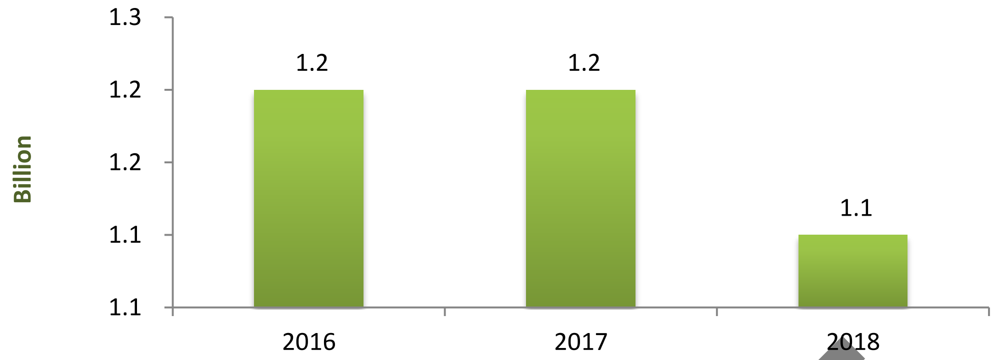
Source: CBN

4.1.4 The Wholesale Payments System

4.1.4.1 The Real Time Gross Settlement (RTGS) System

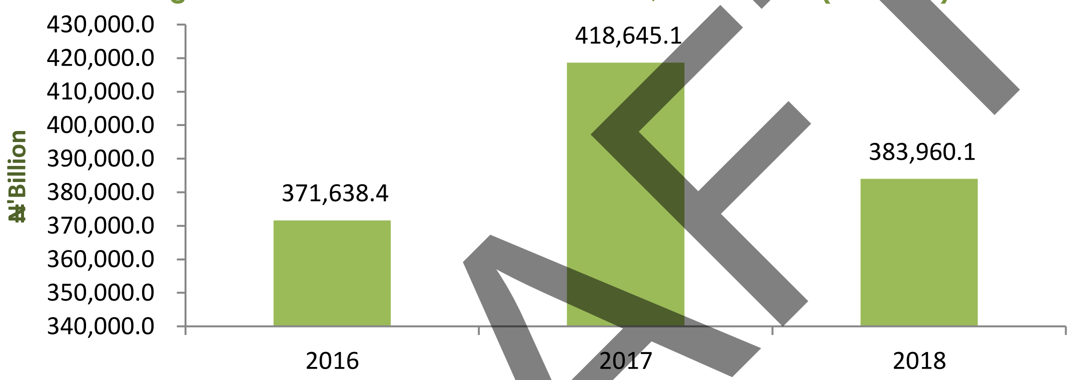
The volume and value of inter-bank fund transfers through the CBN RTGS System decreased by 8.3 per cent a piece to 1.1 million and ₦383,960.1 billion, respectively, at end-December 2018, compared with 1.2 million and ₦418,645.11 billion in the preceding year, due largely to the availability of alternative channels for large value payments.

Figure 4.9a: Volume of RTGS Transactions, 2016 – 2018



Source: CBN

Figure 4.9b: Value of RTGS Transactions, 2016 – 2018 (₦' Billion)

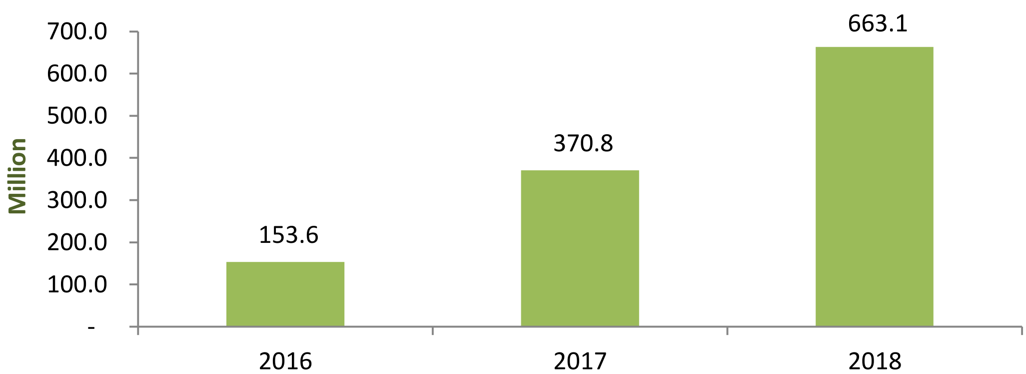


Source: CBN

4.1.4.2 NIBSS Instant Payment (NIP) Transactions

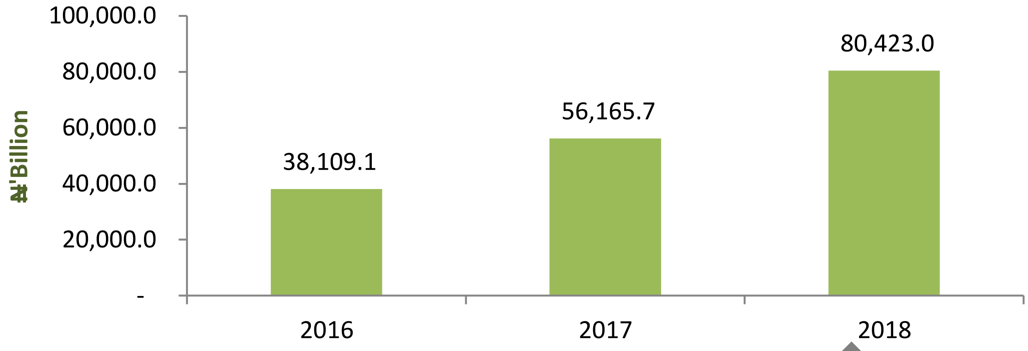
The volume and value of the NIBSS Instant Payment transactions increased by 78.8 and 43.2 per cent to 663.1 million and ₦80,423.0 billion, respectively, compared with 370.8 million and ₦56,165.7 billion in 2017. The rise in the use of the channel was attributed to increased consumer awareness and confidence.

Figure 4.10a: Volume of NIP Transactions, 2016 – 2018 (Million)



Source: CBN

Figure 4.10b: Value of NIP Transactions, 2016 – 2018 (₦'Billion)

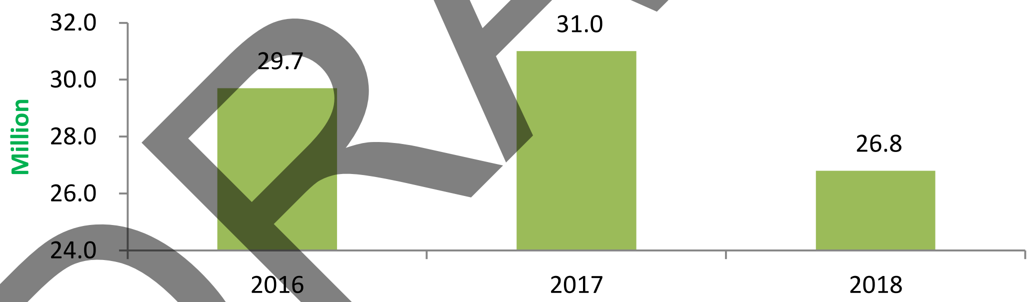


Source: CBN

4.1.4.3 The NIBSS Electronic Funds Transfer (NEFT)

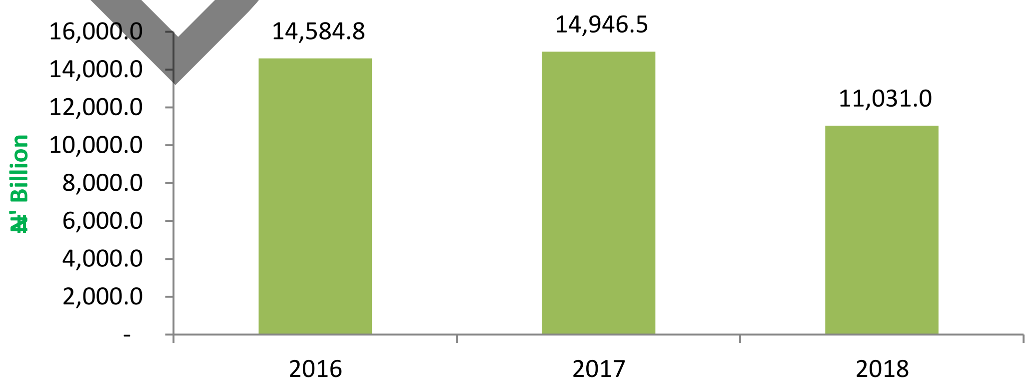
The volume and value of NIBSS Electronic Fund Transfer in 2018 decreased by 13.5 and 26.2 per cent, to 26.8 million and ₦11,031.0 billion, respectively, compared with 31.0 million and ₦14,946.5 billion in 2017. The development was attributed to consumers' preference for the NIP platform over NEFT on account of its instant settlement.

Figure 4.11a: Volume of NEFT Transactions, 2016 – 2018 (Million)



Source: CBN

Figure 4.11b: Value of NEFT Transactions, 2016 – 2018 (₦'Billion)



Source: CBN

4.1.4.4 Institutional Savings

Aggregate financial savings rose by ₦2,167.2 billion to ₦15,583.3 billion, compared with the level in 2017. The ratio of financial savings to GDP was 12.2 per cent, compared with 11.8 per cent in 2017. Banks remained the dominant depository institutions in the financial system, accounting for 95.2 per cent of total financial savings, compared with 95.3 per cent in the preceding year. Other savings institutions, namely, PMBs, insurance companies, pension fund custodians, the Nigerian Social Insurance Trust Fund (NSITF) and microfinance banks, accounted for the balance of 4.8 per cent.

4.2 MONETARY AND CREDIT DEVELOPMENTS

4.2.1 Reserve Money (RM)

Reserve money (RM) grew by 10.1 per cent to ₦7,135.7 billion at the end of the review period. The level of reserve money was, however, higher than the programmed level of ₦6, 703.8 billion for fiscal 2018. Sources of growth in RM were net foreign assets of the CBN, which grew by 20.1 per cent, and domestic assets of the CBN, which rose by 40.8 per cent at end-December 2018. Growth in net foreign assets was due largely, to the accumulation of foreign currency by the CBN, arising from monetisation of export receipts and foreign loans. The growth in net domestic assets reflected significant increase holdings of claims on the Federal government and the 49.0 per cent growth in claims on the private sector.

The corresponding upward movement in monetary liabilities reflected the growth in currency-in-circulation and bank reserves by 8.0 and 11.2 per cent, respectively, at end-December 2018.

Table 4.1: Reserve Money (₦' Billion)

	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18
Sources					
Net Foreign Assets	6,244.72	5,545.32	8,790.70	15,134.62	18,181.45
Net Domestic Assets	466.01	1,090.96	(1,854.00)	(5,415.95)	(7,62.96)
Other Items Net	(779.78)	(823.54)	(1,088.70)	(3,236.41)	(3,419.76)
Reserve Money	**5,930.95**	**5,812.74**	**5,847.92**	**6,482.26**	**7,135.73**
Uses					
Currency-in-Circulation			2,179.17		2,329.71

	1,797.98	1,857.94		2,157.23	
Bank Reserves	4,132.97	3,954.80	3,668.74	4,327.07	4,806.02
Reserve Money	**5,930.95**	**5,812.74**	**5,847.92**	**6,484.30**	**7,135.73**

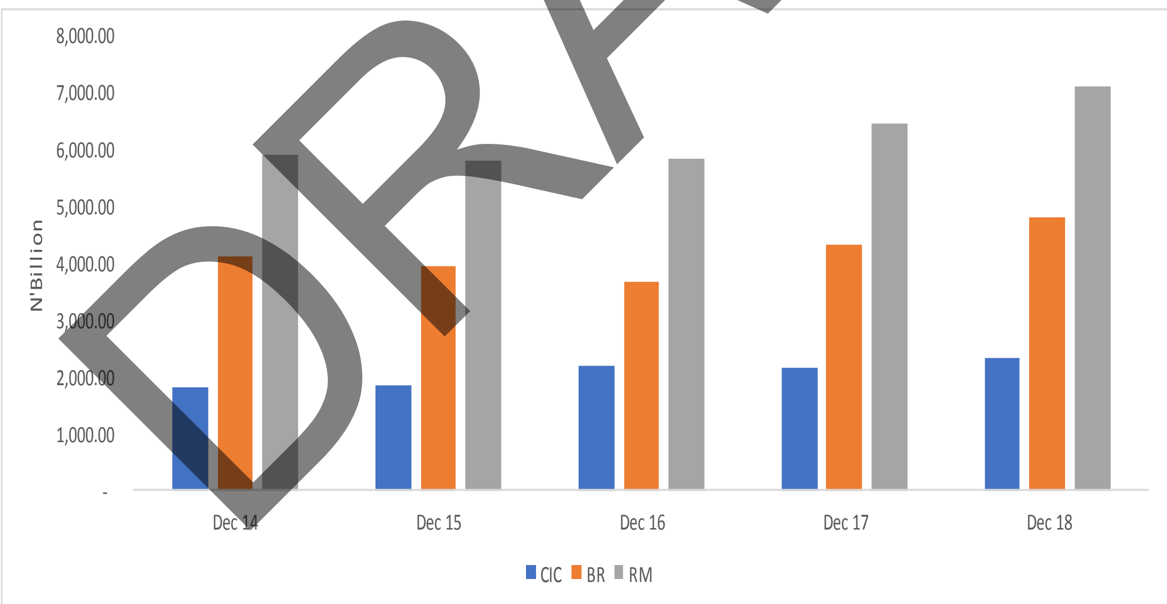
Source: CBN

Table 4.2: Reserve Money (Growth rates %)

	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17
			Sources		
Net Foreign Assets	(11.35)	(11.20)	58.52	72.17	20.13
Net Domestic Assets	140.52	134.11	(269.95)	(192.12)	40.81
Other Items Net	2.97	5.61	32.20	197.27	5.67
Reserve Money	**16.52**	**(1.99)**	**0.61**	**10.85**	**10.08**
			Uses		
Currency-in-Circulation	1.21	3.34	17.29	(1.01)	8.00
Bank Reserves	24.72	(4.31)	(7.23)	17.94	11.07
Reserve Money	**16.52**	**(1.99)**	**0.61**	**10.88**	**10.05**

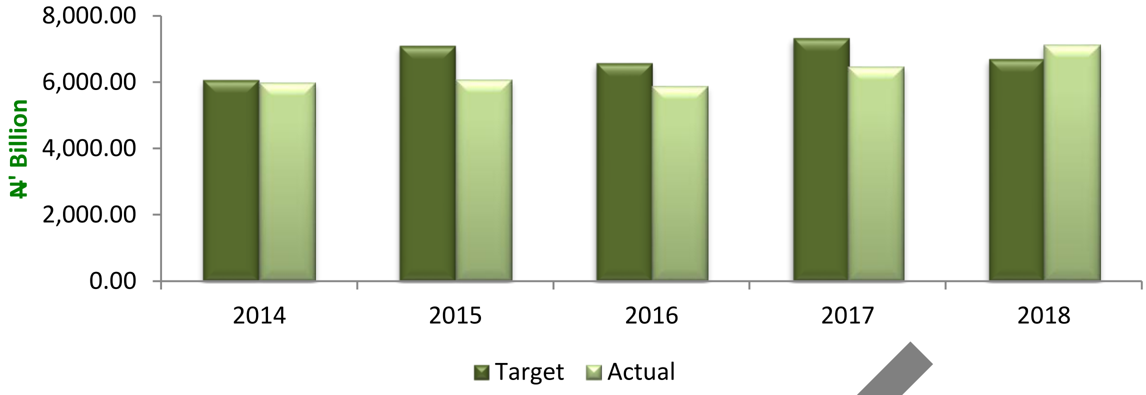
Source: CBN

Figure 4.12a: Reserve Money, 2014 - 2018



Source: CBN

Figure 4.12b: Reserve Money Targets and Outcomes, 2014 - 2018

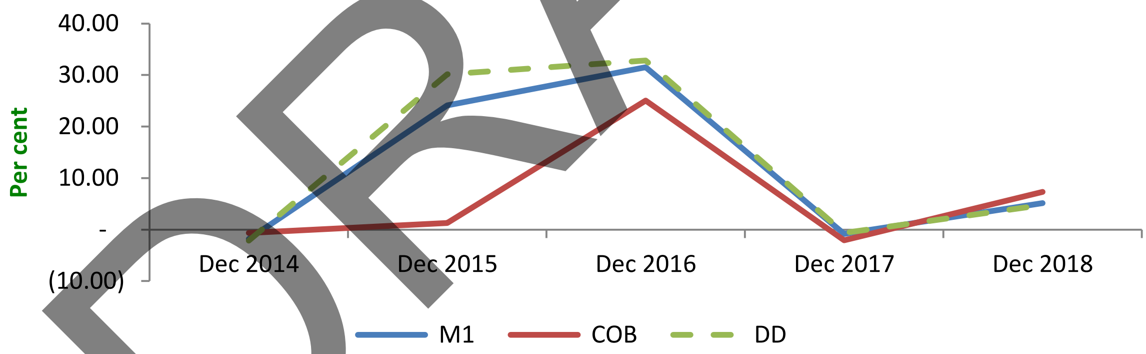


Source: CBN

4.2.2 Narrow Money (M_1)

Narrow money supply (M_1) grew by 5.2 per cent at end-December 2018 to ₦11,752.6 billion, in contrast to the 0.9 per cent decline at end-December 2017. The development was due to the 7.3 and 4.7 per cent growth in currency outside banks and demand deposits, respectively.

Figure 4.13: Components of Narrow Money (M_1) (Per cent), 2014 - 2018

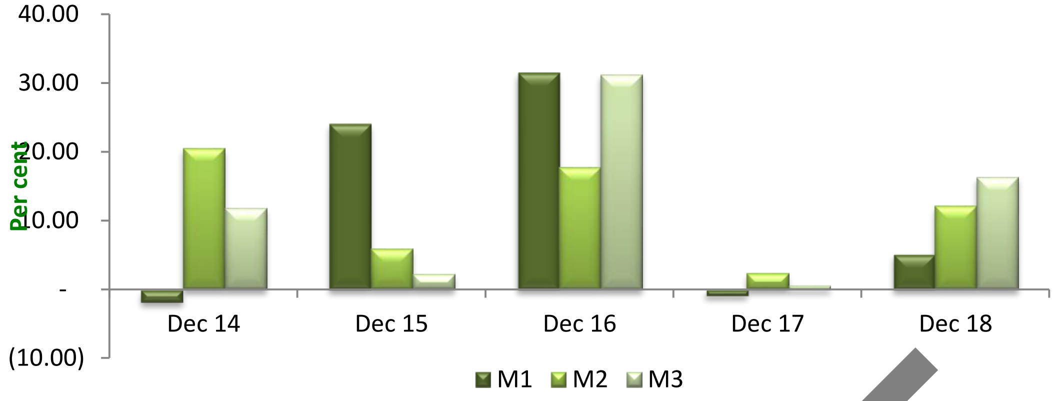


Source: CBN

4.2.3 Quasi-Money

Quasi-money rose by 18.2 per cent to ₦15, 316.0 billion at end-December 2018, compared with the growth of 5.2 per cent at end-December 2017. The development was due to the growth in aggregate savings (savings and time deposit) in commercial, merchant, mortgage and microfinance banks, of which foreign currency deposits (FCD) constituted 36.4 per cent and grew by 28.1 per cent to ₦5,574.7 billion at end-December 2018, in contrast to the decline of 5.0 per cent at end-December 2017.

Figure 4.14: Growth in Monetary Aggregates, 2014 – 2018, (Per cent)



Source: CBN

4.2.4 Broad Money Supply

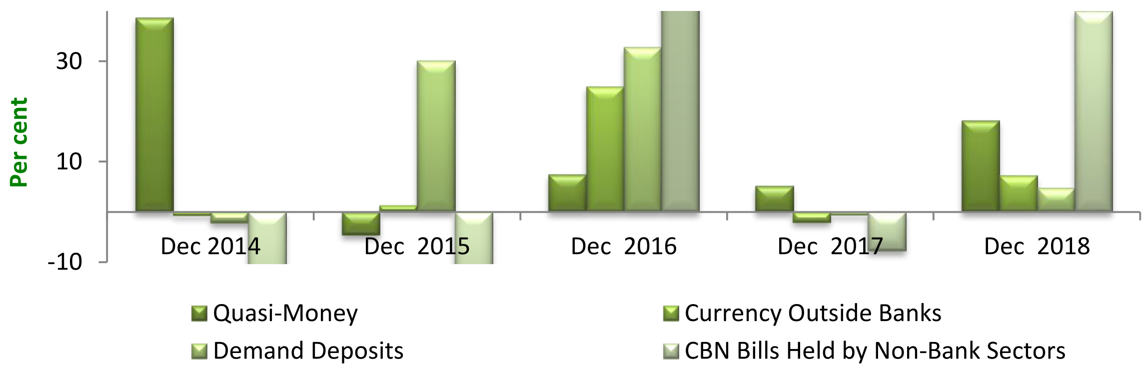
4.2.4.1 Broad Money Supply (M_2)

Growth in broad measures of money supply, M_2 accelerated in the review period, despite the restrictive monetary policy stance of the Bank. Growth of broad money (M_2) stood at 12.1 per cent at end–December 2018, compared with 0.6 per cent recorded at end-December 2017, and the 11.9 per cent indicative target for fiscal 2018. The development was due to the 18.5, 6.4 and 1.7 per cent increase in net foreign assets, domestic credit (net) and other assets (net) of the banking system, respectively.

4.2.4.2 Broad money supply (M_3)

Growth in M_3 stood at 16.4 per cent at the end of the review period, resulting from the 38.9 per cent growth in the holdings of CBN bills by the non- bank public.

Figure 4.15: Growth in the Components of Broad Money (M_3), 2014 – 2018, (Per cent)



Source: CBN

4.2.5 Drivers of Broad Money Supply

4.2.5.1 Net Foreign Assets (NFAs)

Net foreign assets of the banking system rose by 18.5 per cent to ₦18,397.82 billion at the end of the review period, compared with 69.6 per cent at end-December 2017. The growth in NFA was due wholly, to the growth in foreign assets of the CBN. Consequently, the share of NFA in M_3 rose to 55.2 per cent at end-December 2018, above 54.1 per cent at end-December 2017. Similarly, the contribution of NFA to the growth of M_3 was 10.0 percentage points at end-December 2018, against 22.4 percentage points at end-December 2017.

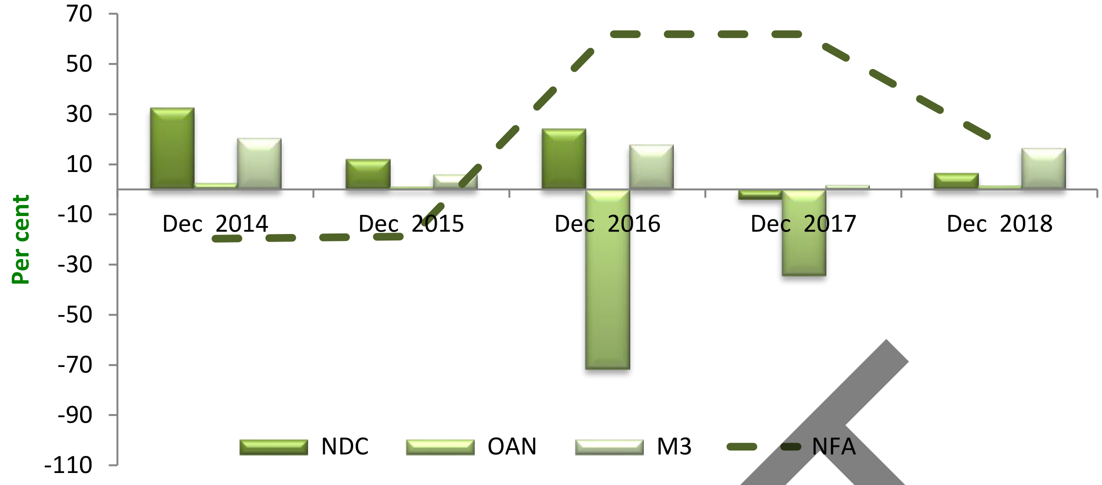
4.2.5.2 Net Domestic Credit (NDC)

Aggregate credit to the domestic economy (net) stood at ₦27,574.3 billion at end-December 2018, representing a 6.4 per cent increase above the level at end-December 2017. The growth, however, contrasted with the decline of 3.5 per cent at the end of the preceding period, and was also lower than the indicative benchmark of 14.6 per cent for fiscal 2018. The development at end-December 2018, was attributed to the 33.8 and 2.0 per cent increase in net claims on the Federal Government and claims on the private sector, respectively. Consequently, the NDC contributed 5.7 percentage points to the growth in M_3 at end-December 2018, in contrast to the negative contribution of 3.3 percentage points recorded at end-December 2017.

4.2.5.2.1 Net Credit to Government (NCG)

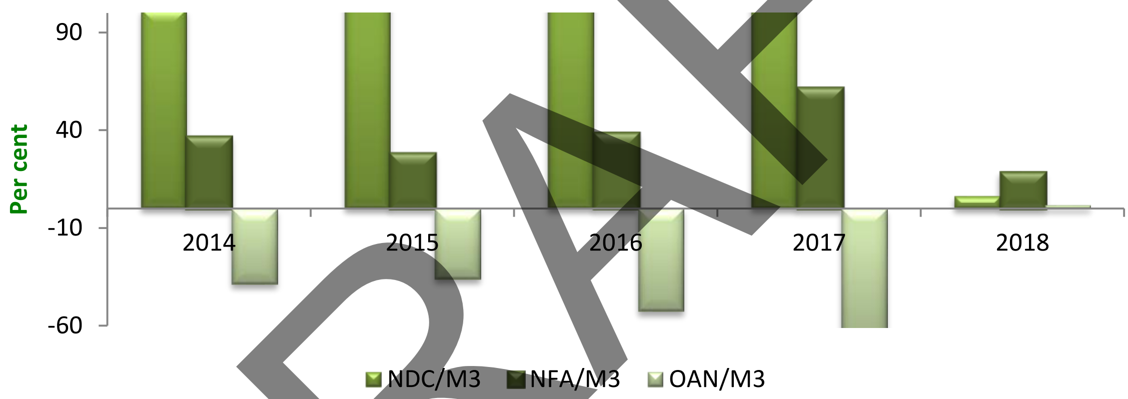
Net claims on the Federal Government increased by 33.8 per cent to ₦4,867.6 billion at end-December 2018, in contrast to the decline of 25.4 per cent at end-December 2017. The development reflected growth in holdings of government securities (NT bills and FGN bonds) by the banking system amounting to ₦6,608.3 billion, a 7.4 per cent growth over the level at end-December 2017. The contribution of claims on the Federal Government to the growth in M_3 was 4.3 percentage points, in contrast to the negative contribution of 4.3 per cent at the end of the preceding period.

Figure 4.16: Growth in Broad Money Supply (M_3), 2014 – 2018, (per cent)



Source: CBN

Figure 4.17: Share of NFA, NDC and OAN in M_3, 2014 – 2018, (Per cent)



Source: CBN

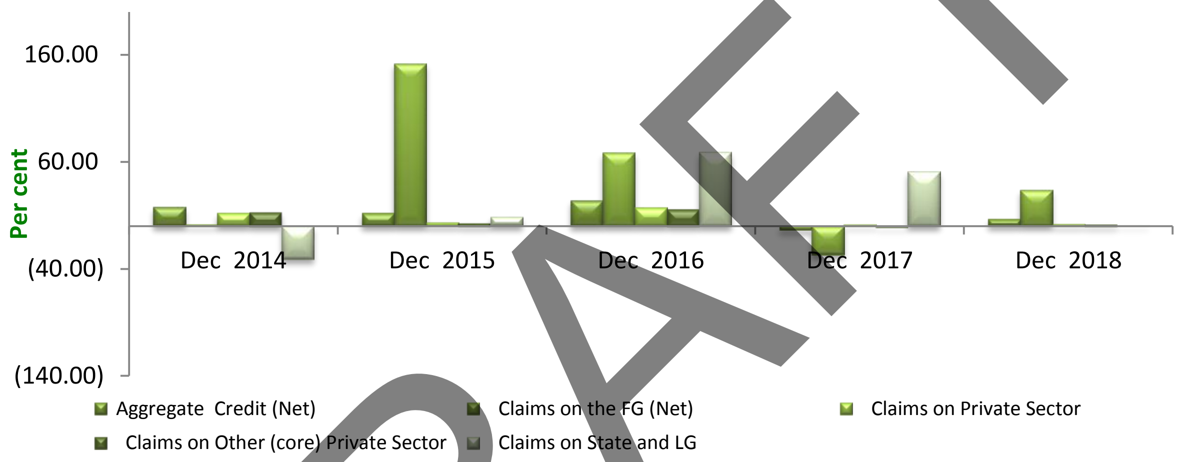
Table 4.3 Contribution to the Growth in M_2 2014-2018 (%)					
	2014	**2015**	**2016**	**2017**	**2018**
Net foreign Assets	-7.88	-6.48	12.92	21	10.04
Net domestic Credit	21.89	11.65	19.38	-3.06	5.74
Other Assets net	-3.62	-2.82	-7.23	-17.38	0.59
Broad Money	10.39	2.35	25.06	0.55	16.36
Narrow Money	-0.59	8.3	9.97	-0.34	2.01
Quasi Money	15.49	-2.74	3.18	2.13	8.2
CBN Bills	-4.5	-3.21	11.9	-1.26	6.14
Broad Money	10.39	2.35	25.06	0.55	16.36

Source: CBN

4.2.5.2.2 Credit to the Private Sector (CP)

Banking system claims on the private sector (including states, local governments, and non-financial public enterprises) grew by 1.9 per cent to ₦22,708.2 billion at end-December 2018, compared with the growth of 1.4 per cent at end-December 2017. Of this total, claims on states and local governments grew by 12.0 per cent, while credit to the core private sector rose by 1.9 per cent. Private sector credit contributed 1.5 percentage points to the growth in broad money supply.

Figure 4.18: Growth in Net Domestic Credit, 2014 – 2018 (Per cent)

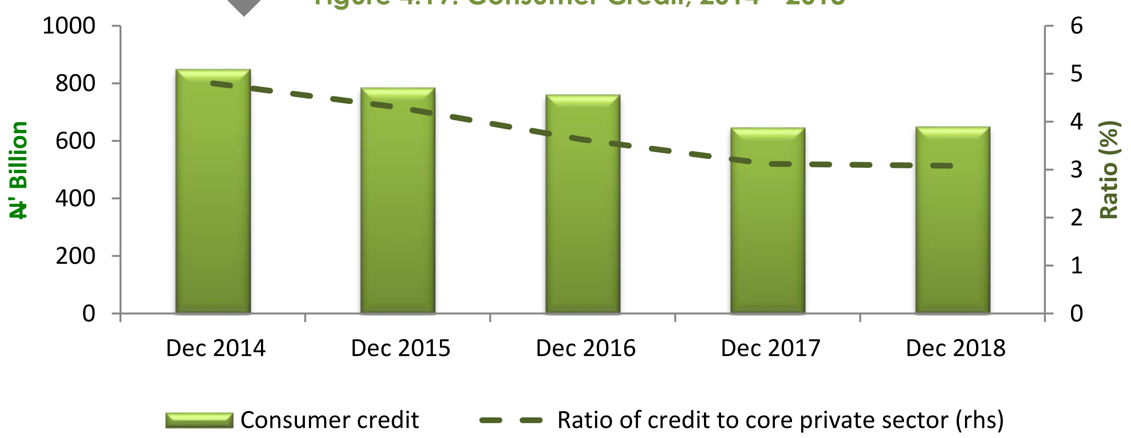


Source: CBN

4.2.5.2.2.1 Outstanding Consumer Credit

Outstanding consumer credit declined by 4.8 per cent to ₦650.7 billion at end-December 2018, but constituted 3.1 per cent of banks' outstanding claims on the core private sector at the end of the review period, same as in 2017.

Figure 4.19: Consumer Credit, 2014 - 2018



Source: CBN

4.2.5.3 Other Assets (Net) (OAN)

Other Assets (net) of the banking system grew by 1.3 per cent, in contrast to the decline of 70.3 per cent at end-December 2017. The contribution of OAN to the growth of M_3 was 0.7 percentage point at end-December 2018, in contrast to negative 18.5 percentage points in 2017.

Table 4.4: Composition of Total Monetary Aggregates (M_3), 2014 - 2018 (Per cent)

	2014	2015	2016	2017	2018
Net Domestic credit	101.9	99.51	94.23	90.44	82.56
Claims on Federal Government (Net)	6.1	13.32	17.11	12.69	14.56
Credit on Private Sector	95.8	86.19	77.13	77.75	68.07
Claims on Other (core) Private Sector	92.9	83.38	73.56	72.27	63.22
Foreign Assets (Net)	**36.8**	**26.03**	**32.10**	**54.14**	**55.15**
Other Assets (Net)	**-26.3**	**-25.54**	**-26.33**	**-44.58**	**-37.81**
Total Monetary Assets	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
Money Supply (M_1)	**36.5**	**39.47**	**39.55**	**38.98**	**35.23**
Currency Outside Banks	6.70	6.70	6.39	6.22	5.72
Demand Deposit	28.90	32.76	33.16	32.76	29.50
Quasi Money	**63.49**	**52.76**	**43.23**	**45.22**	**45.91**
Total Monetary Liabilities (M_3)	**100.0**	**100.0**	**100.0**	**100.0**	**100.00**

Source: CBN

4.2.6 Maturity Structure of Banks' Loans and Advances, and Deposit Liabilities

As in the preceding year, short-term maturities remained dominant in banks' outstanding credit and deposits. Outstanding loans and advances maturing one year and earlier accounted for 47.1 per cent of the total, compared with 43.7 per cent at end-December 2017. The share of medium-term (above 1 year but less than 3 years) loans, fell to 17.5 per cent, from 18.0 per cent. Similarly, long-term (3 years and longer) fell to 35.4 per cent from 38.4 per cent at end-December 2017.

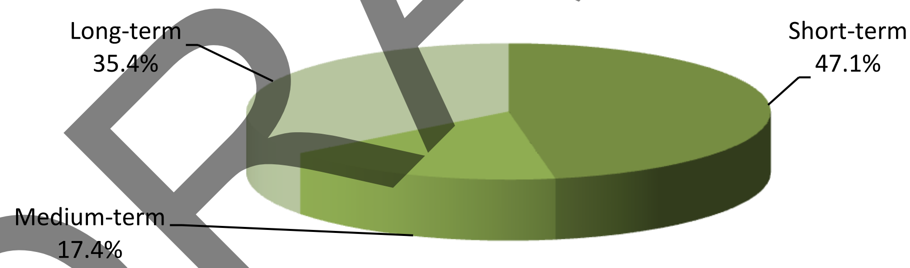
Deposit liabilities showed a similar trend, with short-term deposits constituting 88.1 per cent of the total at end-December 2018, compared with 95.9 per cent at end-December 2017. Deposits of less than 30-day maturity constituted 72.9 per cent, while the share of medium and long-term deposits stood at 3.8 and 8.1 per cent, respectively, compared with 1.3 and 2.8 per cent at end-December 2017. The structure of banks' deposit liabilities explained their preference for short-term claims on the economy.

Table 4.6: Maturity Structure of DMBs' Loans and Advances, and Deposit Liabilities, 2016 - 2018

Tenor	Loans (%)			Deposits (%)		
	2016	2017	2018	2016	2017	2018
0-30 days	27.3	25.6	25.2	75.9	74.4	72.92
31-90 days	6.8	7.8	9.3	11.8	12.9	10.06
91-180 days	7.2	5.3	4.4	4.4	4.8	3.22
181-365 days	5.1	5.0	8.3	3.5	3.7	1.86
Short-term	46.4	43.7	47.1	95.6	95.9	88.06
Medium-term - (above 1 year and below 3 Years)	20.7	18.0	17.5	1.2	1.3	3.83
Long-term (3 years and Above)	32.9	38.4	35.4	3.2	2.8	8.11

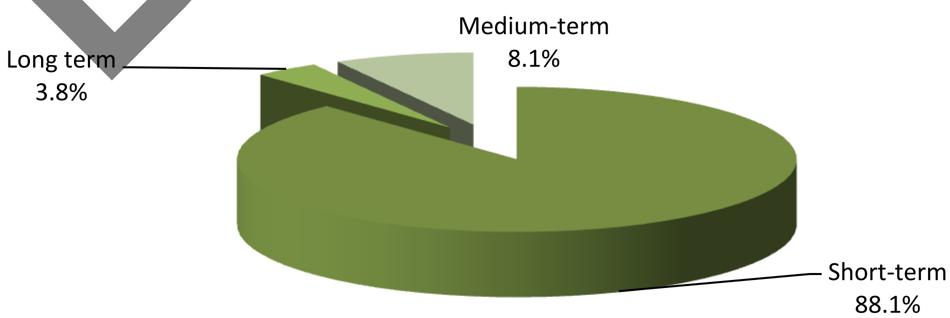
Source: CBN

Figure 4.20a: Maturity Structure of DMBs' Loans and Advances at end-December, 2018 (Per cent)



Source: CBN

Figure 4.20b: Maturity Structure of DMBs' Deposits at end-December, 2018 (Per cent)



Source: CBN

4.2.7 Sectoral Distribution of Credit

Of the total banks' claims on the core private sector in the review year, credit to the priority sectors, such as agriculture, services and construction, constituted 4.0, 34.8 and 4.1 per cent, respectively, compared with 3.4, 37.6 and 4.2 per cent at end-December 2017. The industry sector accounted for the largest share of 41.0 per cent of total sectoral credit utilisation at end-December 2018, of which the manufacturing and oil & gas sub-sectors constituted 14.7 and 23.5 per cent, respectively, compared with 13.8 and 22.7 per cent at end-December 2017.

Table 4.6: Share in Outstanding Credit to the Core Private Sector, 2017 – 2018 (per cent)

ITEM	Dec 17	Dec 2018	Percentage Share in Total		% Change Between
	₦' Billion	₦' Billion	Dec 17	Dec 18	
	1	2	3	4	(1) &(2)
[a] Agriculture	528.2	610.15	3.4	4.0	15.5
[b] Industry	6,226.9	6,203.19	39.6	41.0	-0.4
Mining & Quarrying	25.3	20.69	0.2	0.1	-18.1
Manufacturing	2,171.4	2,230.15	13.8	14.7	2.7
Oil & Gas	3,576.3	3,548.97	22.7	23.5	-0.8
of which Downstream, Natural Gas and Crude Oil Refining	3,576.3	3,548.97	2.9	23.5	-0.8
Power and Energy	453.9	403.38	2.94.2	2.7	-11.1
of which IPP and Power Generation	453.9	403.38	6.5	2.7	-11.1
[c] Construction	657.1	614.51	8.8	4.1	-6.5
[d] Trade/General Commerce	1,023.8	1,076.72	37.6	7.1	5.2
[e] Government	1,391.4	1,302.58	4.8	9.0	-2.1
[f] Services	5,913.3	5,267.04	7.2	34	-10.9
Real Estate	753.7	622.78	0.5	4.1	-17.4
Finance, Insurance and Capital Market	1,125.9	1,106.42	7.4	7.3	-1.7
Education	72.5	57.25	7.4	0.4	-21.1
Oil & Gas	1,161.1	1,096.55	1.9	7.2	-5.6
of which Upstream and Oil & Gas Services	1,161.1	1,096.55	1.9	7.2	-5.6
Power and Energy	301.1	309.12	15.9	2.0	2.7
of which Power Transmission and Distribution	301.1	309.12	6.6	2.0	2.7
Others	2,499.0	2,074.93	4.9	13.7	-17.0
of which: i. General	1,037.7	899.85	2.1	5.9	-13.3
ii. Information & Communication	774.4	545.50	100.0	3.6	-29.6
iii. Transportation & Storage	332.1	289.85		1.9	-12.7
TOTAL PRIVATE SECTOR CREDIT	**15,740.6**	**15,134.20**	**100.0**	**100.0**	**-3.9**

Source: CBN

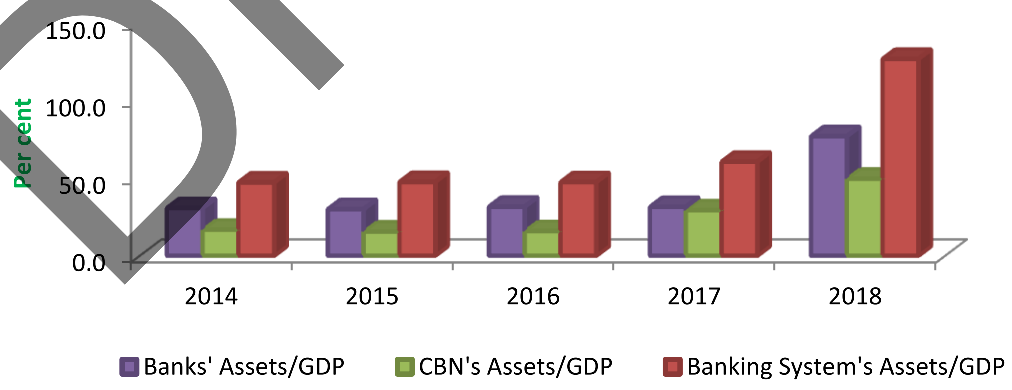
4.2.8 Financial/Banking System Developments

Indicators of financial sector development were mixed in 2018. Systemic relevance of the banking sector, measured by the ratio of M_3 to GDP, stood at 26.2 per cent, 0.9 percentage points above the level at end-December 2017. Similarly, a slight increase in financial savings was observed in 2018, with the ratio of quasi-money to GDP at 12.0 per cent, compared with 11.4 per cent recorded in 2017. Furthermore, there was an improvement in intermediation efficiency indicator, measured by the ratio of currency outside banks to broad money supply, which stood at 5.7 per cent, from 6.2 per cent at end-December 2017. However, the capacity of the banking system to finance the economy declined, with the aggregate credit to GDP ratio at 21.6 per cent, from the 22.8 per cent in 2017. The ratio of private sector credit to GDP fell to 17.8 per cent, from 19.6 per cent in 2017. Similarly, the banking system assets/GDP ratio fell to 42.6 per cent at end-December 2018, from 45.17 per cent at end-December 2017.

Table 4.7: Indicators of Financial Developments, 2014 – 2018 (per cent)

	2014	2015	2016	2017	2018
M_3/GDP	21.2	23.1	28.1	25.2	26.2
COB/M_3	7.6	6.70	6.39	6.22	5.72
QM/GDP	63.5	52.76	43.23	45.22	45.91
NDC/GDP	21.6	23.0	26.5	22.8	21.6
CP/GDP	20.4	19.88	21.66	19.60	17.77
Cp (core)/GDP	19.7	19.24	20.66	18.22	16.52
Banking System's Assets/GDP	47.5	47.71	47.51	45.17	42.57

Figure 4.21: Ratio of Banking System's Total Assets to GDP, 2014 - 2018



Source: CBN

4.2.9 Money Multiplier and Velocity of Money

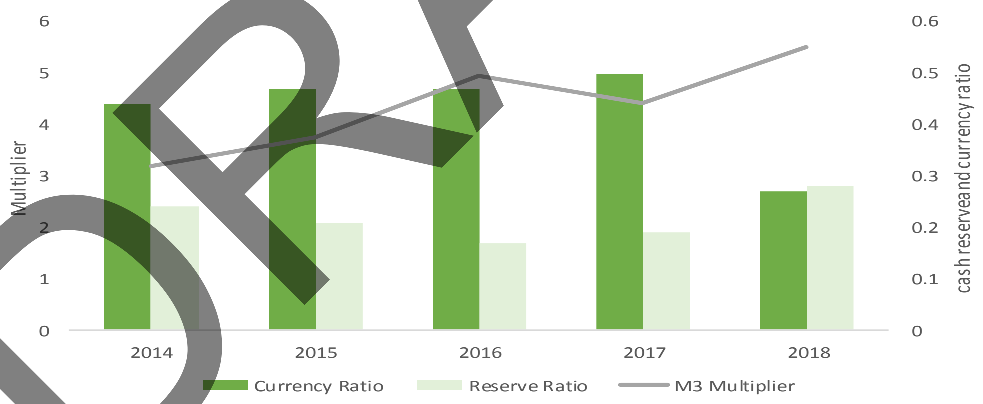
The broad money multiplier stood at 5.51, an increase of 1.09 above the level at end-December 2017, suggesting a faster rate of monetary expansion in the review period. Currency deposit ratio decreased to 0.28 below the ratio of 0.50 in 2017, following the cash less policy initiatives of the Bank. Also, reserve ratio rose to 0.28, above the level of 0.19 in 2017, consistent with the rate of monetary expansion in the review period. The velocity of broad money, M_2 and M_3, stood at 4.72 and 3.83, compared with 4.71 and 3.97 in 2017. The slight increase in M_2 velocity suggested increased economic activities during the review period, while the decline in M_3 velocity suggested significant growth in the non-bank holdings of CBN bills in the review period.

Table 4.8: Money Multiplier and Velocity of M2, 2014 - 2018

	2014	2015	2016	2017	2018
Currency Ratio	0.44	0.47	0.47	0.50	0.27
Reserve Ratio	0.24	0.21	0.17	0.19	0.28
M_3 Multiplier	3.19	3.74	4.96	4.42	5.51
Velocity of M_2	4.71	4.7	4.30	4.71	4.72
Velocity of M_3	4.71	4.33	3.56	3.97	3.83

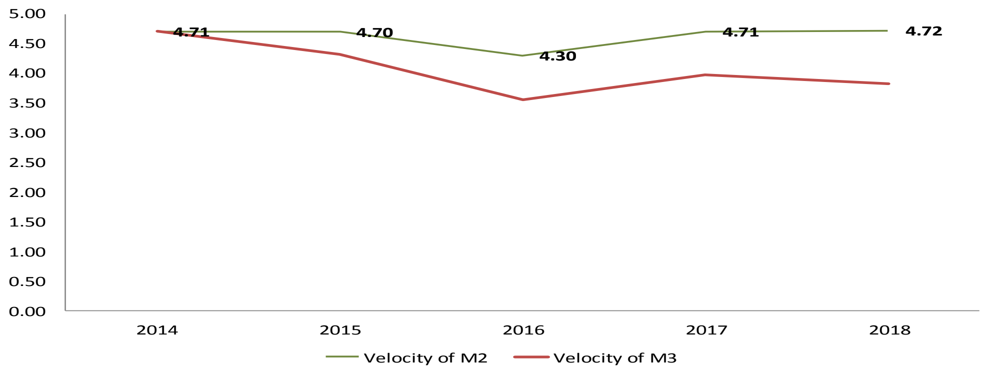
Source: CBN

Figure 4.22: Money Multiplier, Currency Ratio and Reserve Ratio, 2014 - 2018



Source: CBN

Figure 4.23: Velocity of Broad Money, 2014 - 2018



Source: CBN

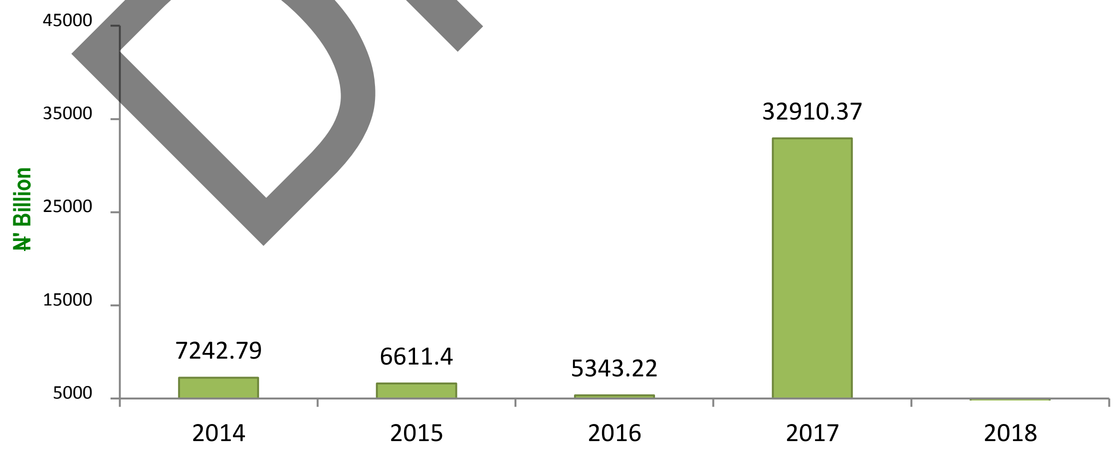
4.3 MONEY MARKET DEVELOPMENTS

Money market activities responded to the trends in liquidity in the banking system, influenced, largely, by statutory revenue flows, foreign exchange intervention and open market operations (OMO). The activities at the inter-bank market showed preference for collateralised transactions by market players, reflecting their risk aversion. Interest rates at all segments of the market mirrored the level of liquidity in the banking system and generally fell below their levels in 2017. The trend of activities at the discount window, remained as in 2017, with request for Standing Lending Facility (SLF) being more dominant than Standing Deposit Facility (SDF).

4.3.1 The Inter-bank Funds Market

At the interbank funds market, the total value of transactions decreased sharply to ₦1,661.81 billion in 2018, a 94.6 per cent fall, below ₦32,910.37 billion in 2017. The value of OBB transactions amounted to ₦1,601.15 billion or 96.4 per cent of the total, while transactions at the unsecured inter-bank segment, accounted for the balance of ₦60.66 billion or 3.7 per cent of total in 2018, compared with 94.8 and 5.2 per cent, respectively in 2017. This represented decrease of 94.9 and 96.4 per cent in OBB and unsecured transactions, below their respective levels in 2017.

Figure 4.24: Value of Interbank Funds Market Transactions, 2014 – 2018 (₦'billion)

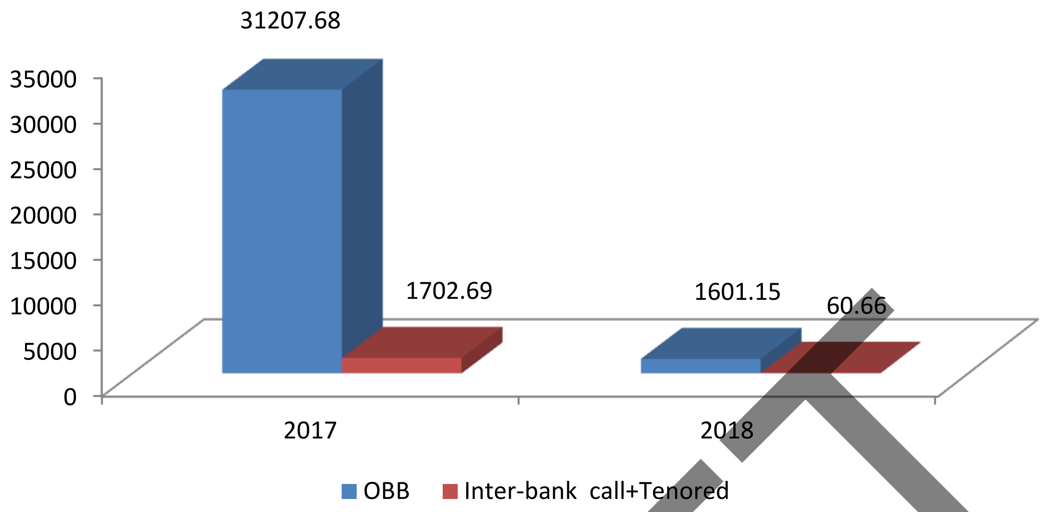


Source: CBN

4

FINANCIAL SECTOR DEVELOPMENTS

Figure 4.25: Share of Interbank Funds Market Transactions, 2018 (Per cent)



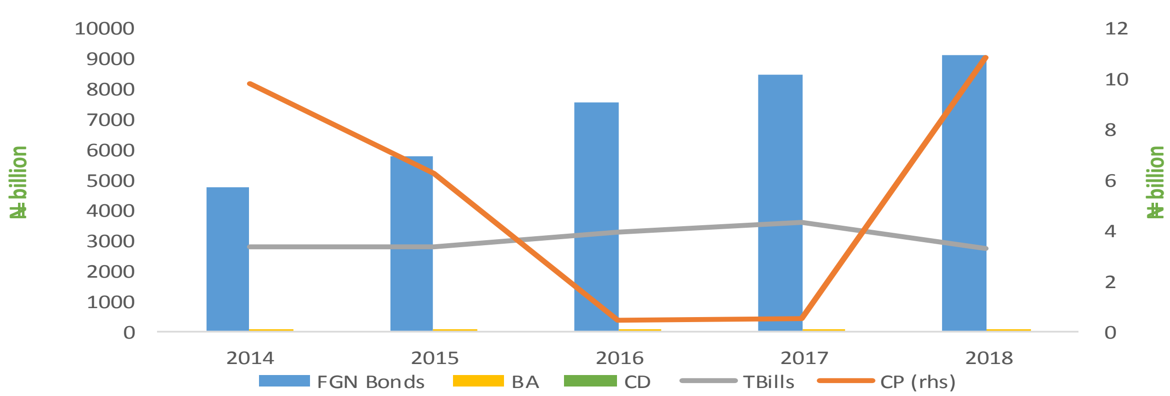
Source: CBN

4.3.2 Money Market Assets Outstanding

Total money market assets outstanding at end-December 2018 stood at ₦11,893.14 billion, representing a decrease of 1.9 per cent from ₦12,122.02 billion at end-December 2017. The development was attributed to the decrease in the Bankers' Acceptances and NTBs outstanding, due to lower expected yield in the market. Government securities constituted 99.8 per cent of the total money market assets outstanding, while private sector securities (Commercial Paper and Bankers' Acceptances) accounted for the balance.

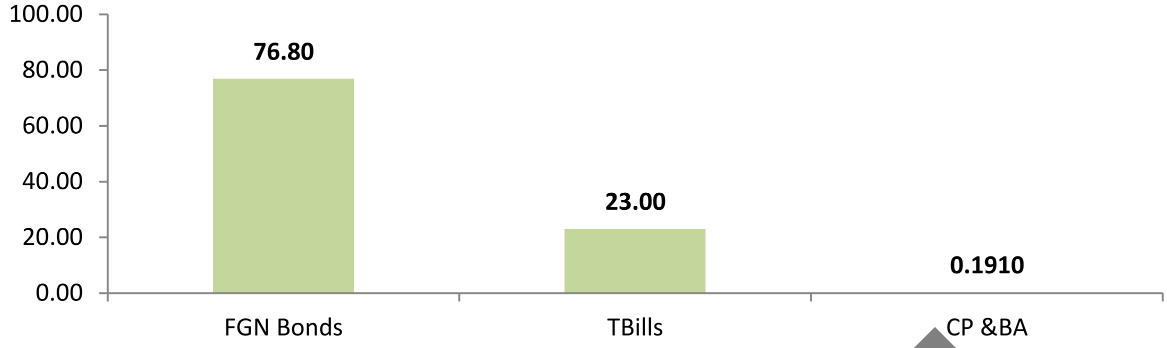
Government securities accounted for 99.8 per cent of the total money market assets outstanding at end-December 2018.

Figure 4.26: Money Market Assets Outstanding, 2014 – 2018 (₦' billion)



Source: CBN

Figure 4.27: Growth Rates of Money Market Assets Outstanding, 2018 (Per cent)



Source: CBN

Table 4.9: Composition of Money Market Assets Outstanding, 2017 and 2018

Asset	Share in total (%) in 2017	Share in total (%) in 2018
FGN Bonds	70.25	76.80
Treasury Bills	29.53	23.00
Bankers' Acceptance	0.22	0.10
Commercial Paper	0.004	0.091
Certificate of Deposit	0.00	0.00
Total	100	100

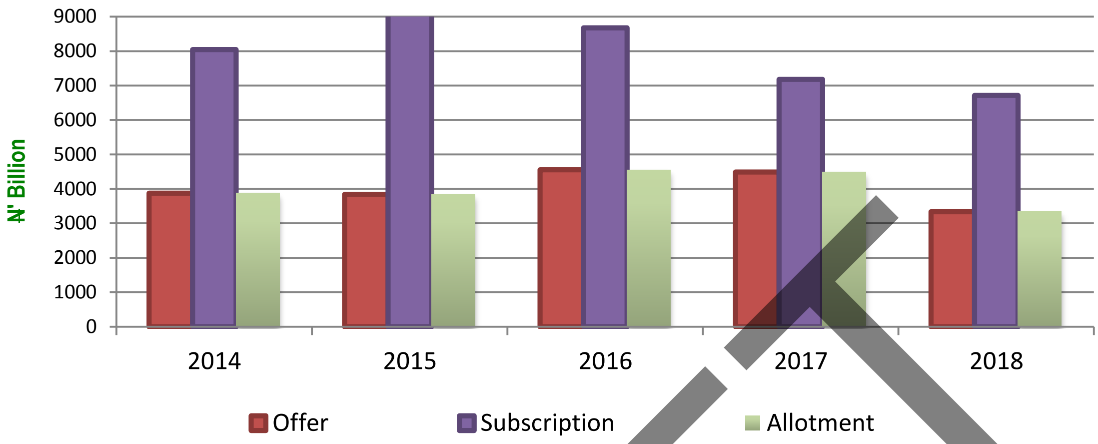
Source: CBN

4.3.2.1 Nigerian Treasury Bills (NTBs)

Nigerian Treasury Bills (NTBs) worth ₦3,342.39 billion were offered and allotted in 2018, representing a decrease of ₦1,153.08 billion or 25.7 per cent, below the ₦4,495.5 billion in 2017. The reduction in NTBs holdings reflected the lower NTB issues, coupled with the redemption of treasury bills worth ₦78.05 billion in December 2018. Total public subscription stood at ₦6,713.78 billion, a decrease of ₦464.6 billion or 6.5 per cent, compared with ₦7,178.38 billion in the preceding year. The tenors were 91-, 182- and 364-day. The low public subscription was attributed to the high frequency of OMO auctions, which constrained banking system liquidity and the non-issuance of NTBs in December as maturing obligations were fully redeemed.

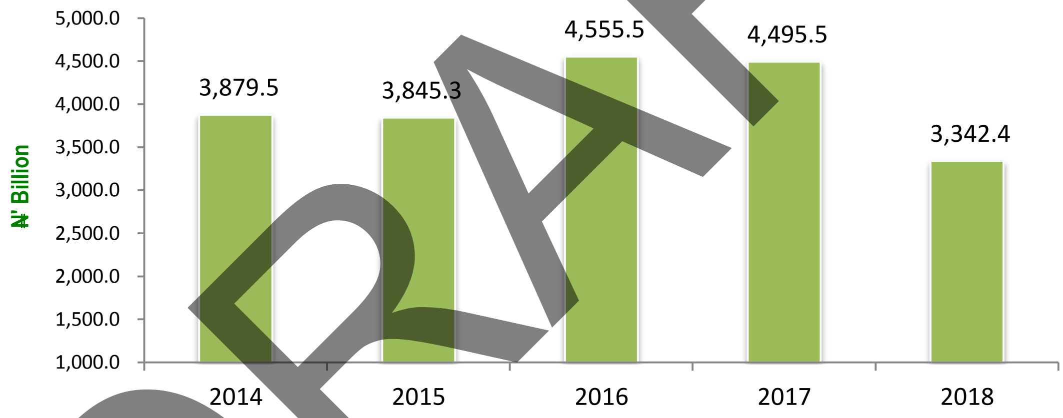
The bid rates ranged from 10.00 to 12.55 per cent for the 91-day, 10.30 to 13.93 per cent for the 182-day and 10.70 to 14.45 per cent for the 364-day tenors. In comparison, the bid rates in 2017 were higher at 12.95 to 14.00 per cent for the 91-day, 15.00 to 17.50 per cent for the 182-day and between 15.57 to 18.98 per cent for the 364-day tenors.

Figure 4.28: NTB Issues, Subscriptions and Allotments, 2014 - 2018



Source: CBN

Figure 4.29: Nigerian Treasury Bills Outstanding, 2014-2018



Source: CBN

The structure of allotment of the instrument indicates that banks took up ₦ 1,832.20 billion or 54.9 per cent, mandate and internal funds customers ₦ 1,332.46 billion or 39.9 per cent, while CBN branches and CBN take-up amounted to ₦175.72 billion or 5.3 per cent in the period under review.

Table 4.10: NTB Issues, Subscription, Allotments and Repayments, 2014-2018 (₦' billion)

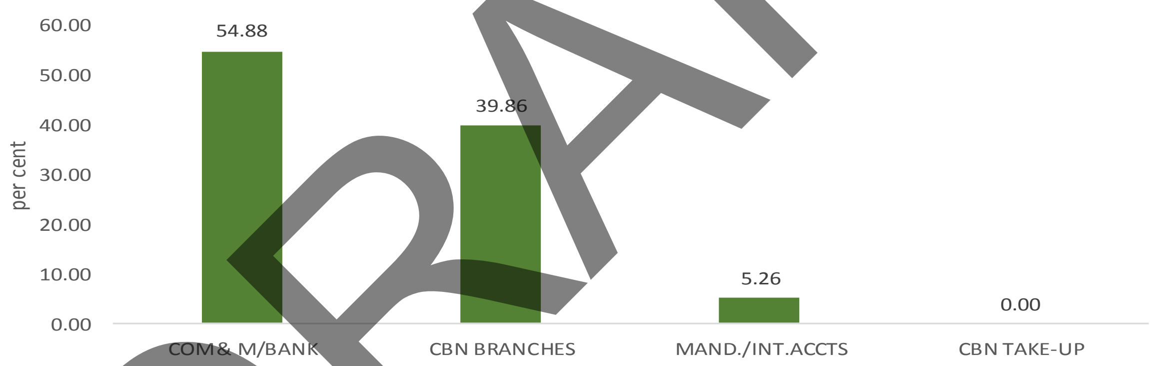
	2014	2015	2016	2017	2018
Offer Amount (₦'bn)	*3,879.47*	*3,845.32*	*4,555.50*	*4,495.46*	*3,342.39*
Total Subscription (₦'bn)	*8,043.56*	*9,302.32*	*8,677.69*	*7,178.38*	*6,713.78*
Allotment (₦'bn)	*3,879.47*	*3,845.32*	*4,555.50*	*4,495.46*	*3,342.39*
Commercial & MBs	*2,213.95*	*2,765.62*	*2,633.04*	*2,550.04*	*1,834.20*
Mandate and Internal Fund	*1,483.94*	*999.50*	*1,609.71*	*1,698.22*	*1,332.46*
CBN branches/CBN take-up	*181.58*	*80.20*	*312.75*	*120.02*	*175.72*
Average Range of Successful Bid Rates (%)	*8.00 -15.99*	*3.63 -15.90*	*6.34 - 17.40*	*14.52-16.83*	*10.00-14.45*
Bid-Cover Ratio[1]	*2.07*	*2.42*	*1.90*	*1.60*	*2.01*
Repayments	*1,690.05*	*3,875.12*	*3,936.12*	*4,432.95*	*4,108.17*
Net Flows[2]	*-2,189.43*	*29.8*	*-619.38*	*-62.52*	*765.78*

Source: CBN

[1]Bid-cover ratio equals Subscription divided by Allotments

[2]Net Flow equals Repayments minus Allotments

Figure 4.30: Nigerian Treasury Bills: Breakdown of Allotments, 2018 (Per cent)



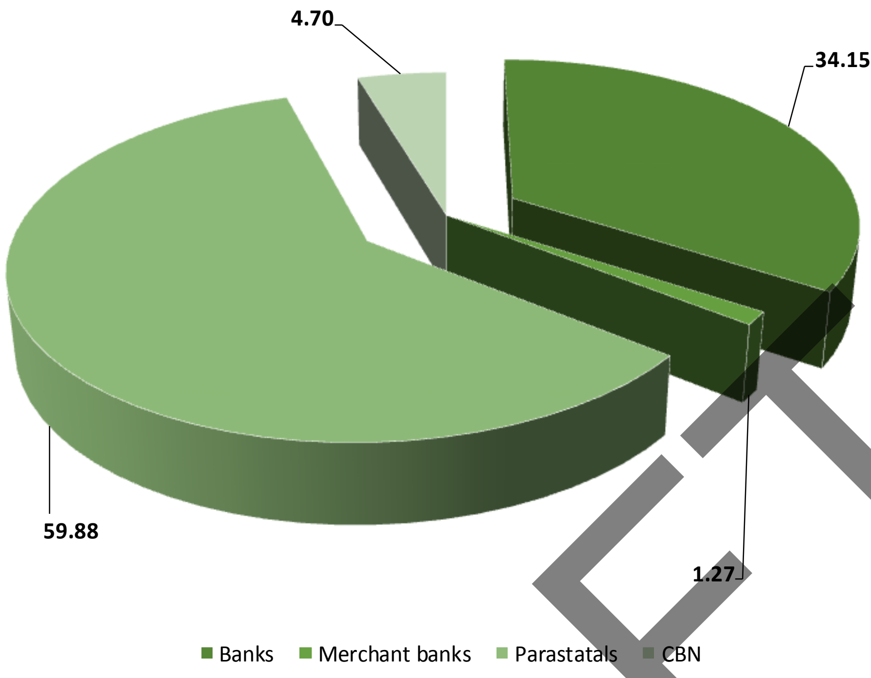
Source: CBN

The sum of ₦4,108.17 billion was repaid in the review year, resulting in a net inflow of ₦765.78 billion from the banking system, as against a net outflow of ₦62.52 billion in the preceding year.

Table 4.11: Liquidity Flows, 2017 - 2018

Period	NTBs Allotted (₦bn)	NTBs repaid((₦bn)	Net flow (₦bn)
2018	*3,342.39*	*4,108.17*	*765.78*
2017	*4,495.47*	*4,432.95*	*-62.52*

Figure 4.31 Nigerian Treasury Bills Outstanding: Classes of Holders, 2018 (Per cent)



Source: CBN

4.3.2.2 Commercial Paper (CP)

Commercial Paper (CP) outstanding held by DMBs grew by ₦10.34 billion to ₦10.86 billion at end-December 2018, from ₦0.52 billion at the end of the preceding year. The development was due to the significant increase in investment in CP by commercial and merchant banks, during the review period. Thus, CP constituted 0.1 per cent of the total value of money market assets outstanding, compared with 0.004 per cent at the end of the preceding year.

4.3.2.3 Bankers' Acceptances (BAs)

Bankers' Acceptances (BAs), held by the banks, declined by ₦14.25 billion to ₦12.18 billion in 2018 below ₦26.43 billion at the end of the preceding year. The development was attributed to the shift in investments by the DMBs to government securities during the year. Consequently, BAs constituted 0.1 per cent of total value of money market assets, compared with 0.2 per cent in the preceding year.

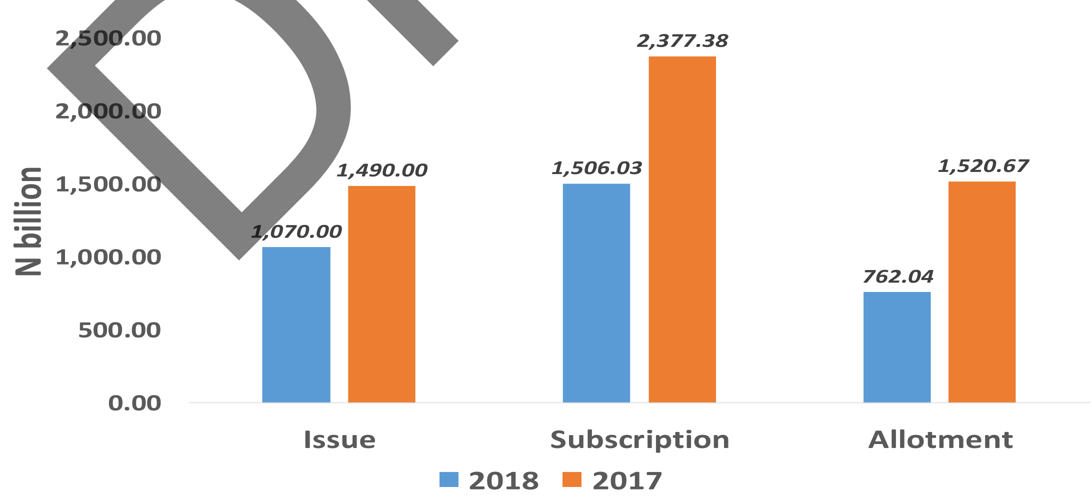
4.3.2.4 Federal Republic of Nigeria Treasury Bonds

There was no new issue of the Federal Republic of Nigeria Treasury Bonds (FRNTBs) in 2018, as the Federal Government relied on FGN Bonds to raise funds. Therefore, the outstanding stock of the instrument at end-December 2018 stood at ₦150.99 billion, compared with ₦175.99 billion at end-December 2017. The decline in the amount outstanding was due to the redemption of ₦25.00 billion at the end of 2018. A breakdown of the amount outstanding showed that the CBN held ₦42.55 billion, while ₦108.44 billion was held in the Sinking Fund, compared with ₦57.64 billion and ₦118.35 billion, respectively, in 2017.

4.3.2.5 Federal Government of Nigeria (FGN) Bonds

New issues and re-openings of the FGN Bonds series 1, 2, 3 and 6 were auctioned in 2018. Total FGN Bonds offered for sale was ₦1,070.0 billion, while public subscription and sale stood at ₦1,506.0 billion and ₦762.0 billion, respectively. These were lower than ₦1,490.0 billion, ₦2,377.4 billion and ₦1,520.7 billion, issued, subscribed to and alloted in 2017, respectively. The lower subscription was attributed to a lower offer amount and preference for euro bonds.

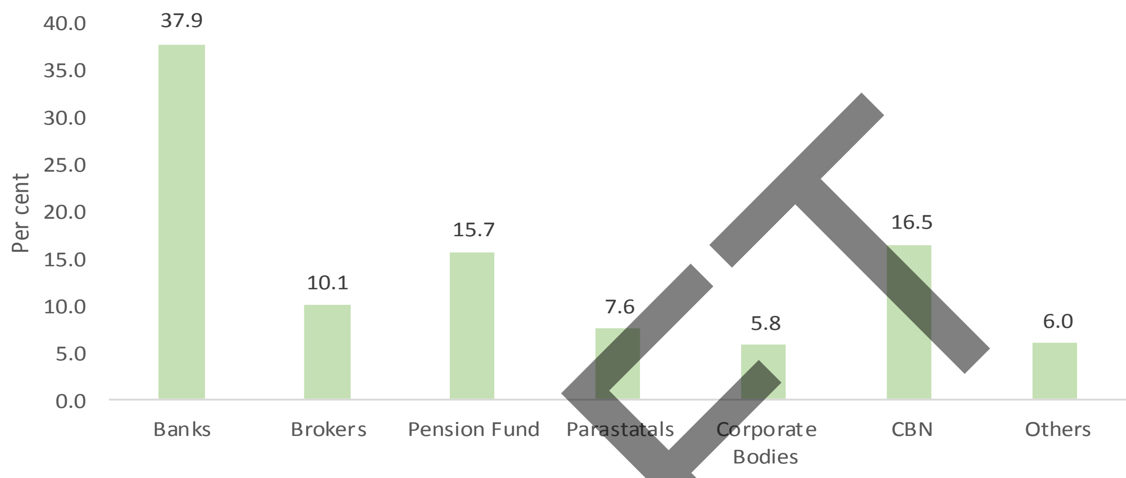
Figure 4.32: Outstanding FGN Bonds, 2018



Source: CBN

Total value of the FGN Bonds outstanding at end-December 2018 was ₦9,814.6 billion, compared with ₦9,195.61 billion at end-December 2017, representing an increase of ₦618.92 billion or 6.7 per cent. The structure of holdings in 2018 was: banks, ₦3,716.09 billion (37.9 %); brokers, ₦991.68 billion (10.1 %); pension funds, ₦1,545.27 billion (15.7 %); corporate bodies, ₦568.46 billion (5.8 %); parastatals, ₦740.63 billion (7.6 %); CBN, ₦1,622.46 billion (16.5 %), while others accounted for the balance of ₦630.03 billion (6.0 %).

Figure 4.33: FGN Bonds by Holder, 2018 (Per cent)



Source: CBN

4.3.2.6 Federal Government of Nigeria Savings Bonds

A total of ₦3.59 billion was allotted during the review period, indicating a decrease of ₦3.61 billion or 50.2 per cent, compared with ₦7.20 billion at end-December 2017. The decrease was attributed to lower amount allotted and the preference for foreign borrowing in the period under review. The new issues were: 2 and 3 Years with the coupon rate applied ranging from 9.48 to 12.40 per cent and 10.48 to 13.40 per cent, respectively. The applicable coupon rates for the 2 and 3 years in the previous year ranged from 11.74 to 13.82 per cent and 12.74 to 14.82 per cent, respectively. Consequently, total value of FGN Savings Bonds outstanding at end-December 2018 was ₦10.75 billion.

4.3.2.7 Federal Government of Nigeria Green Bonds

There was no new issue of FGN Green Bonds in the review period. Consequently, the total value outstanding at end-December 2018 remained at ₦10.69 billion.

4.3.2.8 Federal Government of Nigeria Sukuk Bonds

A total of ₦100.00 billion 7-Year Sukuk was issued and allotted during the review period. It attracted a rental rate of 15.74 per cent payable semi-annually. Consequently, total value of Sukuk bonds outstanding at end-December 2018 increased to ₦200.00 billion.

Table 4.13: Domestic Debt Charges (N' billion), 2018

	TOTAL 2018 (₦)	Percentage (%)	TOTAL 2017 (₦)	Percentage %
Nigeria Treasury Bills	640.68	35.6	445.13	30.6
Treasury Bonds Interest	23.84	1.3	27.30	1.9
Coupon Paid on all FGN Bonds	1,135.22	63.1	983.10	67.5
TOTAL	1,799.74	100.0	1,455.53	100.0

Source: CBN

4.3.3 Over-the-Counter (OTC) Transactions

4.3.3.1 Nigerian Treasury Bills (NTBs)

Over-the-Counter (OTC) transactions in NTBs amounted to ₦72,122.54 billion, indicating an increase of ₦11,801.93 billion or 19.6 per cent over ₦60,320.60 billion recorded in 2017. The increase was attributed to improved patronage from foreign investors and pension funds administrators (PFAs) on account of the attractive yields.

4.3.3.2 OTC FGN Bonds

OTC transactions in FGN Bonds amounted to ₦11, 800.47 billion, indicating an increase of ₦1.96 billion or 20.0 per cent, compared with ₦9,836.17 billion recorded in 2017. The trend was traceable to increased interest by local and foreign investors.

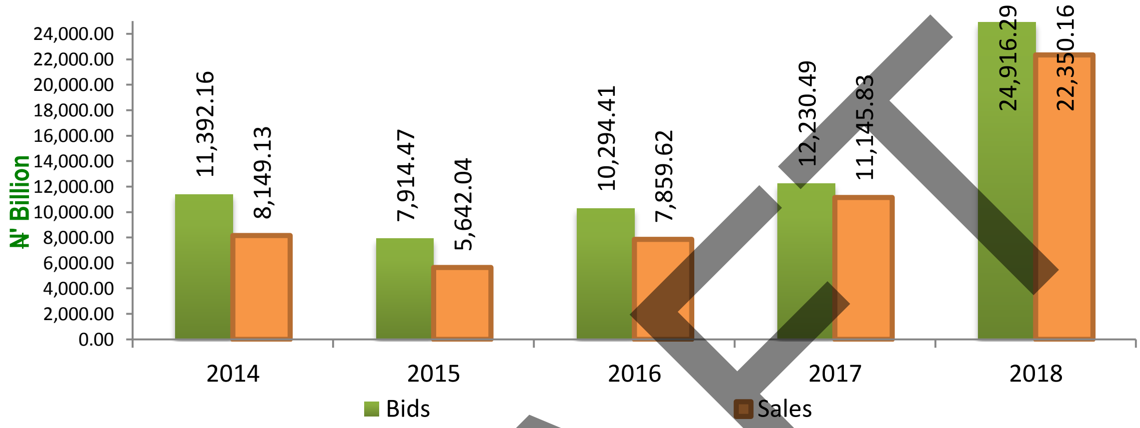
4.3.4 Open Market Operations (OMO)

Liquidity management was conducted using OMO as the main instrument of monetary policy, complemented by discount window activities, CRR and intervention in the foreign exchange market.

4.3.4.1 OMO Auctions

Total CBN Bills offered at the OMO was ₦34,610.06 billion, while public subscription and sale amounted to ₦24,916.29 billion and ₦22,350.16 billion, respectively, compared with ₦12,860.09 billion, ₦12,230.49 billion and ₦11,145.83 billion offered, subscribed and sold, respectively, in 2017.

Figure 4.34: OMO Issues and Sales, 2014 - 2018



Source: CBN

4.3.4.2 CBN Promisory Notes

There was no issuance of promissory notes in 2018, as in 2017, due to the absence of new claims on the acquired banks.

4.3.4.3 Repurchase Transactions (Repo)

The total request for repo transactions was ₦966.06 billion, while the interest rates ranged from 18.50 to 19.50 per cent for 4 to 90-day tenors. Consequently, the total interest earned on repo was ₦23.55 billion. In the preceding year, request for repo was ₦1,105.96 billion at the same rate of interest for similar tenors. Total interest earned on repo was ₦32.65 billion.

4.3.5 Discount Window Operations

4.3.5.1 CBN Standing Facilities

Banks resorted to the standing facilities to square-up their daily positions during the review period. The trend of activities at the window showed a reduction in the participation at the SLF segment, when compared to 2017. Applicable rates for SLF and SDF were 16.00 and 9.00 per cent in the review period, same as the previous year. The rates were anchored on the Monetary Policy Rate (MPR).

4.3.5.1.1 The Standing Deposit Facility (SDF)

Patronage at the SDF window increased and averaged ₦103.50 billion in 2018. In the 246 transaction days within the period, the average daily deposits from January to December was ₦84.27 billion, compared with ₦41.90 billion in the previous year, while average interest earned during the year was ₦30.51 million compared with ₦14.86 million in the previous year.

4.3.5.1.2 The Standing Lending Facility (SLF)

In the 234 transaction days within the period, the average monthly request for SLF was ₦48.44 billion. The average monthly interest earned was ₦78.12 million. In the previous year, the average monthly request for SLF was ₦216.34 billion, resulting in an average monthly interest earned of ₦159.96 million.

4.3.5.2 Rediscounting Transactions

Banks did not access the rediscounting window in the review period, compared with ₦27.29 billion (CBN bills) in the corresponding period of 2017 to soften the liquidity needs of some banks. The tenor of the bills ranged from 6 to 129 days, effected at rates that ranged from 18.00 to 19.10 per cent. Consequently, total interest earned was ₦0.67 billion in 2018.

4.4 OTHER FINANCIAL INSTITUTIONS

The total assets of other financial institutions (OFIs) excluding the BDCs, rose by 35.7 per cent to ₦2,987.87 billion at end-December 2018, compared with ₦2,201.64 billion at end-December 2017. Similarly, the aggregate net loans and advances of the sub-sector rose by 15.0 per cent to ₦1,422.19 billion at end-December 2018, compared with ₦1,237.14 billion at end-December 2017. Also, the total deposits increased by 28.7 per cent to ₦683.98 billion, while the shareholders' funds declined by 5.9 per cent to ₦458.74 billion at end-December 2018, compared with ₦531.35 billion and ₦487.61 billion, respectively, at end-December 2017. The increase in deposit was attributed, to the rise in deposits for mortgages by PMBs customers and mandatory deposits by MFBs customers, while the decline in shareholders' funds reflected negative reserves by the Federal Mortgage Bank of Nigeria (FMBN), and the Bank of Agriculture (BOA).

4.4.1 Development Finance Institutions (DFIs)

The total assets of the seven (7) DFIs increased significantly by 47.1 per cent, to ₦1,939.29 billion, at end-December 2018. Analysis of the asset base by institution indicated that the Bank of Industry (BOI), the DBN, the FMBN, the BOA, the Nigerian Export-Import Bank (NEXIM), the Nigeria Mortgage Refinancing Company (NMRC) and The Infrastructure Bank (TIB) accounted for 56.1, 14.4, 12.0, 7.6, 6.1, 3.6 and 0.3 per cent, respectively, of total assets. Similarly, the paid-up capital of the sub-sector increased by 0.8 per cent, to ₦238.78 billion, at end-December 2018.

The net loans and advances of the institutions also increased by 32.4 per cent, to ₦918.47 billion in 2018, compared with ₦693.75 billion in 2017. The proportion of the industry net loans and advances attributed to each institution were: BOI (69.4%); FMBN (16.2%); BOA (5.1%); NEXIM (4.4%); DBN (3.1%); and NMRC (1.9%). The shareholders' funds increased to ₦248.88 billion in 2018, from ₦247.31 billion in 2017 due to the increase in paid up capital and reserves of DBN, which issued new shares and successfully raised its capital to ₦100.0 billion at end December 2018, compared with ₦40.0 billion at end-December 2017.

4.4.2 The Asset Management Corporation of Nigeria (AMCON)

The net carrying value of AMCON's outstanding liabilities increased from ₦4.53 trillion at end-December 2017 to ₦5.43 trillion at end-December 2018, arising from the Corporation's investment of ₦898.45 billion in Polaris Bank Ltd. The carrying value of its assets, net of impairment, also rose to ₦769.87 billion, from ₦769.75 billion in 2017. The gap between AMCON's assets and its liabilities was expected to be recovered from the Banking Sector Resolution Cost Trust Fund (BSRCTF), credit recoveries and asset sales by the Corporation. The investment in Polaris Bank Ltd would be redeemed through a Sinking Fund to be called "Intervention Reserve Fund" which the bank would maintain with the CBN. The bank would make an annual contribution of 10 per cent of its annual gross earnings for the next twenty five years into the Fund, towards the redemption of the Face Value of the Corporation's investment at maturity.

Total recoveries from inception stood at ₦759.05 billion at end-December 2018, and comprised cash (₦366.85 billion), shares forfeiture (₦128.47 billion) and property forfeiture (₦263.73 billion). The sum of ₦260.39 billion was realised in 2018 from the BSRCTF and recoveries by the AMCON towards the redemption of its outstanding bonds, compared with ₦263.04 billion in 2017. The CBN makes an annual contribution of ₦50.0 billion to the BSRCTF, while the contributions of the participating banks was determined based on 50 basis points of their on-balance sheet assets and contingent liabilities. The recoveries generated by AMCON as well as the contributions to the BSRCTF were used to repay the Corporation's debt obligations, which fell due for payment in December 2018.

4.4.3 The Nigeria Mortgage Refinance Company (NMRC)

The total assets of the Nigeria Mortgage Refinance Company (NMRC) stood at ₦69.46 billion at end-December 2018, compared with ₦42.26 billion at end-December 2017. The development was due, largely, to increase in borrowings and other liabilities. Similarly, refinanced mortgages increased by ₦8.98 billion to ₦17.13 billion in 2018, compared with ₦8.15 billion in 2017, reflecting the creation of additional mortgages. The adjusted capital of ₦11.49 billion was higher than both the ₦9.69 billion recorded in 2017 and the minimum capital requirement of ₦5.0 billion for the Company. Similarly, the capital adequacy ratio (CAR) and adjusted capital to net credit were 79.51 per cent and 1:0.84, respectively, at end-December 2018, compared with 139.83 per cent and 1:1.84 at end-December 2017. The reduction in CAR and adjusted capital to net credit were attributed to increases in refinanced mortgagaes and investment in quoted shares. The NMRC also complied with the regulatory minimum and maximum CAR of 10.0 per cent and 1:10, respectively.

The Composite Risk Rating, Earnings and Capital of the Company all of which remain unchanged, were 'Moderate', 'Acceptable' and 'Strong', respectively. Similarly, all the credit facilities of the Institution remained 'Performing'. The Company's profit before tax (PBT) was ₦1.81 billion for the period ended December 2018, compared with ₦1.43 billion for the period ended September 2017.

4.4.4 Microfinance Banks (MFBs)

The number of microfinance banks (MFBs) stood at 885 at end-December 2018, compared with 1,008 MFBs at end-December 2017. This comprised eight (8) National, 135 State and 742 Unit MFBs. Provisional data revealed that total assets/liabilities of MFBs was ₦421.95 billion at end-December 2018, compared with ₦352.36 billion at end-December 2017. The paid-up capital and shareholders' funds increased by 9.1 per cent and 17.7 per cent to ₦68.82 billion and ₦97.63 billion, respectively, compared with the levels at end-December 2017. The development was attributed to modest capital injection, increase in operating profits and revocation of operating licences of 153 MFBs during the review period. Net loans and advances increased by 14.4 per cent to ₦220.95 billion at end-December 2018, compared with ₦193.16 billion at end-December 2017. Deposit liabilities rose by 31.3 per cent to ₦213.25 billion. Reserves also increased by 45.1 per cent, to ₦28.81 billion at end-December 2018, compared with ₦19.86 billion at end-December 2017.

Overall, the average capital adequacy ratio (CAR) of the sub-sector rose to 41.75 per cent in 2018, compared with 34.64 per cent in 2017. Also, the average portfolio-at-risk (PAR) increased to 23.1 per cent at end-December 2018, from 21.2 per cent at end-December 2017, indicating a further deterioration in the quality of risk assets. Industry average return on assets (ROA) declined to 1.2 per cent at end-December 2018, from 3.9 per cent at end-December 2017, while return on equity (ROE) increased to 16.46 per cent at end-December 2018, compared with 7.6 per cent at end-December 2017. Average liquidity ratio fell to 82.8 per cent at end-December 2018, below 91.7 per cent at end-December 2017. At that level, liquidity ratio was 62.8 percentage points above the stipulated minimum ratio of 20.0 per cent.

Investible funds, available to the sub-sector in the review year, amounted to ₦70.45 billion, compared with ₦28.8 billion in 2017. The funds were sourced from increased deposits (₦50.78 billion), draw-down on reserves (₦8.95

billion), increase in paid up capital (₦5.70 billion), as well as, long-term loans (₦2.04 billion). The funds were used to increase placements with other banks (₦30.87 billion), net loans and advances (₦27.80 billion), and bank balances (₦7.73 billion).

4.4.4.1 The Maturity Structure of Microfinance Banks (MFBs) Loans & Advances and Deposit Liabilities

Short-term credit remained dominant with microfinance banks (MFBs) in the review year, driven, largely, by the short-term structure of deposits collected by institutions in the sub-sector. Accordingly, at end-December 2018, short-term loans (with maturity less than one year), accounted for 82.9 per cent of the aggregate loans and advances, indicating 3.4 percentage points below the 86.3 per cent in the preceding year. Loans with long-term maturity (over 360 days) accounted for 17.1 per cent of the total, compared with 13.7 per cent at end-December 2017. Similarly, analysis of the deposit structure showed that short-term deposit liabilities (less than one year maturity) remained dominant, constituting 89.3 per cent of total deposit liabilities, indicating 0.8 percentage point increase, above 88.5 per cent in 2017. Deposits of long-term maturity (above 1 year) accounted for 10.7 per cent at end-December 2018, compared with 11.5 per cent in 2017.

Table 4.14: Maturity Structure of Assets and Liabilities of Microfinance Banks (MFBs), 2017 - 2018
(Per cent)

	2017		2018	
Tenor/Period	**Loans and Advances**	**Deposits**	**Loans and Advances**	**Deposits**
0-30 days	24.8	44.7	24.8	44.7
31-60 days	8.3	10.7	8.3	10.7
61-90 days	10.8	12.2	10.8	12.2
91-180 days	22.0	12.1	22.0	12.1
181-360 days	20.4	8.8	20.4	8.8
Short-Term	**86.3**	**88.5**	**86.3**	**88.5**
Above 360 days	**13.7**	**11.5**	**13.7**	**11.5**
Total	**100.0**	**100.0**	**100.0**	**100.0**

Source: Central Bank of Nigeria

4.4.5 Finance Companies (FCs)

The total assets/liabilities of the FCs increased by 25.4 per cent to ₦174.69 billion, compared with ₦139.36 billion in the preceding year. Similarly, loans and advances increased by 30.0 per cent to ₦53.16 billion at end-December

2018, compared with ₦40.90 billion in 2017. Investments also increased by 6.8 per cent to ₦13.00 billion at end-December 2018, from ₦12.17 billion at end-December 2017. The development reflected increase in borrowings by 29.0 per cent to ₦103.82 billion at end-December 2018 from ₦80.47 billion at end-December 2017. The shareholders' funds, increased by 9.6 per cent to ₦29.25 billion at end-December 2018, compared with ₦26.69 billion at end-December 2017. This was as a result of the injection of additional capital and asset revaluation surplus occasioned by the newly licensed FCs and the adoption of the IFRS by majority of the institutions.

4.4.6 Primary Mortgage Banks (PMBs)

There were 35[2] licensed PMBs at end-December 2018, compared with 34 PMBs at end-December 2017. These comprised 12 National and 23 State PMBs. The total assets/liabilities of the PMBs increased, marginally, by 1.4 per cent to ₦451.95 billion, compared with ₦445.70 billion in 2017. This reflected the 18.2 per cent decrease in the shareholders' funds, which stood at ₦82.99 billion in 2018, compared with ₦101.43 billion in 2017. Loans and advances and placement with banks increased to ₦229.60 billion and ₦41.03 billion, respectively, compared with ₦222.96 billion and ₦36.77 billion in 2017. Non-current assets held for sale decreased to N62.12 billion at end-December 2018, compared with ₦74.25 billion at end-December 2017.

Investible funds available to the PMBs, amounted to ₦42.98 billion. The funds were sourced, mainly, from increased long-term loans (₦13.24 billion), investments/non-current assets held for sale (₦12.13 billion) and other liabilities (₦9.21 billion). Additional funds were sourced from decrease in placement with banks (₦1.59 billion), and increase in short-term investment (₦3.19 billion). The funds were utilised, mainly, to increase reserves (₦18.97 billion), other assets (₦9.84 billion), as well as, loans and advances (₦6.64 billion).

[2] Due to an inconclusive merger arrangement, 1 PMB that was earlier delisted was recognised.

4.4.7 Bureaux-de-Change (BDCs)

The number of licensed BDCs increased to 4,492 at end-December 2018, compared with 3,740 at end-December 2017. The increase was as a result of the licensing of 752 new BDCs during the review period.

4.5 CAPITAL MARKET DEVELOPMENTS

4.5.1 Developments in the Nigerian Capital Market

The Securities and Exchange Commission (SEC) sustained its activities aimed at strenghtening regulation and ensuring the efficient functioning of the Nigerian capital market, in line with the stipulated recommendations contained in the Nigerian Capital Market Master Plan (2015 - 2025). To this end, the Commission continued the implementation of the exisiting initiatives and developed new ones as follows:

- Inauguration of a Market-wide Fintech Committee in November 2018 to facilitate the development of the Fintech Road Map for the Nigerian capital market;
- Development of a framework to ensure viable commodity market in Nigeria, via the implementation of the Commodities Ecosystem Report. In addition, relevant adjustments and improvements were made within the Commission's structure to facilitate the attainment of the Commodity ecosystem road map;
- Collaboration with the Nigerian Educational and Research Development Council (NERDC) to introduce capital market studies into the curriculum of basic and senior secondary schools, as part of efforts to boost the level of financial literacy in the country. The Commision also sustained its routine nationwide enlightenment campaigns and capital market clinics;
- Approval of the Rules on Green Bonds to ensure that debt instruments were offered for the purpose of financing or re-financing projects which yielded positive environmental impact. In addition to the general requirements for the registration of debt instruments and reporting obligations of issuers, the rules provide a guideline for the

management of issues proceeds and a process for refinancing environmental friendly projects;

- Participation in a flagship Pan-African programme designed to strengthen Africa's capital markets. The SEC was the first capital market regulator to participate in the programmes which seeks to unlock capital and build investor confidence through the implementation of stong regulations and international standards. The Programme, which was expected to run over a three-year period, will see FSD Africa, a UK Aid funded non-profit company, provide funding to build the capacity of the Commission, as well as provide world-class technical assistance to encourage closer collaboration among regulators. The funding would also cover conduct of research to support the development of new policies and regulations;
- Extension of the forebearance window by another year from the previously communicated deadline of December 31, 2018, to enable investors take advantage of the opportunity to claim their dividends and bonuses; and
- Introduction of electronic distribution of annual reports and accounts to shareholders by public companies, to reduce costs and ensure a seamless distribution.

4.5.2 The Nigerian Stock Exchange (NSE)

In line with the advent of the 4th industrial revolution, the NSE introduced a new corporate strategic road map for the 2018 - 2021 period. The road map is focused on three primary areas: enhancing customer focus; reorganising for optimisation; and capitalising on "Big Bang" opportunities, including big data analytics and blockchain technology. The organisation was also restructured to establish departments, such as the Enterprise Innovation, Retail Coverage and State Owned Enterprises (SOE) departments to boost retail investors' activity and position the body to favourably compete with its international counterparts.

Furthermore, the Exchange achieved significant strides on key initiatives, including Demutualisation and Exchange Traded Derivatives (ETDs). The

Demutualisation Bill was successfully approved and signed into law during the review year. Work was ongoing on finalising later stages of the process, which includes engagement with key stakeholders. On the derivatives initiative, the Exchange enhanced its technology infrastructure to support the trading of ETDs, as well as, created an ETD rule book. As at end-December 2018, the rule book was undergoing the approval process, alongside on-boarding of dealing members.

The Exchange also accomplished significant feats across the core areas of business development, corporate citizenship, market development and investor protection. Some of these included: the launch of the Corporate Governance Index to track the performance of companies that meet certain stringent corporate governance criteria; migration of four (4) companies to the Premium Board of the Exchange; and redesign of the NSE website to boost analytics and for ease of navigation. Others were: deployment of X-pay, an online payment platform for all products and services offered; deployment of XBot, an artificial intelligence powered chat-bot to improve customer engagement and satisfaction; secured approval from the SEC for Sustainability Disclosure Guidelines for all listed companies; and implemented a new equity market structure to dampen volatility and enable pricing efficiency during the open & close auctions, among others.

Capital importation to Nigeria increased by 48.5 per cent at end-December 2018, from the level in the preceding year. However, monetary policy normalisation in the US, and subsequent risk averse sentiments for emerging and frontier markets, as well as political uncertainties due to the upcoming elections in Nigeria, led to the steady decline of foreign portfolio investment (FPI) flows during the year. Although, the Nigerian economy marginally recovered during the year, the decline observed in the Nigerian capital market mirrored the negative sentiments observed in global capital markets in 2018.

4.5.2.1 The Secondary Market

Activities in the secondary segment of the Nigerian capital market in 2018 were bearish, as major market indicators, with the exception of the market turnover volume, trended downward. This was on account of perceived political risks, volatility in oil prices and rising global yields which resulted in negative sentiments in the market.

At end-December 2018, the cumulative volume and value of traded securities were 101.15 billion shares and ₦1.19 trillion, respectively, in 1,048,776 deals. The total volume of traded securities rose by 0.8 per cent, while the total value of traded securities fell by 6.2 per cent, from the preceding year's level of 100.31 billion shares and ₦1.27 trillion in 837,421 deals, respectively. The bulk of the transactions were in equities, which accounted for 99.9 per cent of the turnover volume and value of traded securities apiece, compared with 99.9 per cent and 99.8 per cent, respectively, in 2017. The average daily volume and value of traded equities were 409.0 million shares and ₦4.8 billion, respectively, compared with 406.7 million shares and ₦5.1billion, in 2017.

The secondary market segment of the NSE was bearish and bulk of the transactions remained in equities.

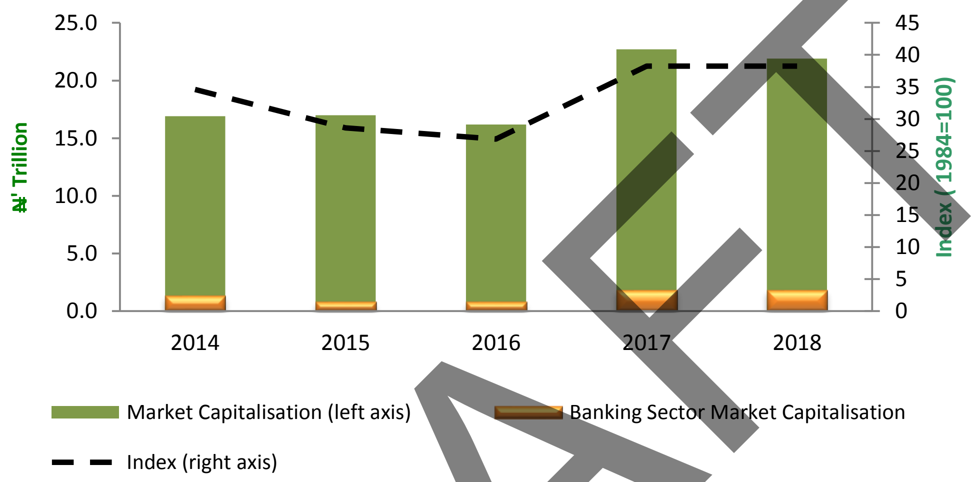
Transactions in the financial services sector accounted for the bulk of activities, with volume of traded stocks at 75.0 billion shares (74.2%), valued at ₦776.2 billion (65.0%) in 619,493 deals, compared with 66.2 billion shares (66.0%), valued at ₦488.7 billion (38.4%) in 508,042 deals in the preceding year. The banking sub-sector remained the most active (by volume) with ……. billion traded securities worth ₦……. billion, in …….. deals in 2018, compared with 39.3 billion traded securities worth ₦412.4 billion, in 338,954 deals in 2017.

The aggregate market capitalisation of the 286 listed securities fell by 3.6 per cent to ₦21.90 trillion, compared with the level in 2017. This reflected the decline in the value of securities across different asset classes (equities and ETF). Similarly, market capitalisation of the 169 listed equities fell by 13.9 per cent, compared with the level in 2017, to ₦11.73 trillion at end-December 2018. The equities segment constituted 53.6 per cent of aggregate market capitalisation, compared with 59.4 per cent in 2017. There were 6 banks in the top twenty (20) most-capitalised stocks on the Exchange, same as in

2017. The banks accounted for 22.3 per cent of the market capitalisation, below the level of 25.7 per cent reported in 2017.

Total market capitalisation, as a percentage of the nominal GDP, was 17.1 per cent, compared with 20.1 per cent at end-December 2017. Similarly, the ratio of the value of traded stocks to GDP was 0.9 per cent, compared with 1.1 per cent recorded at end-December 2017.

Figure 4.35: Trends in Market Capitalisation and NSE Value Index, 2014-2018



Source: NSE

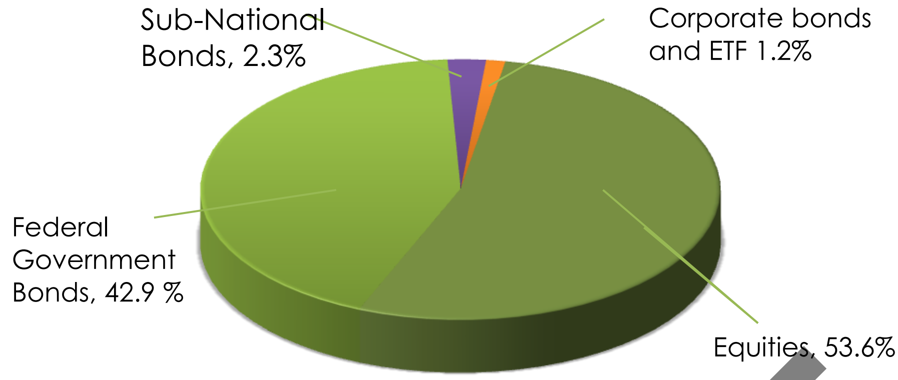
The debt securities component of the market capitalisation, included Federal Government Bonds (₦9.4 trillion or 42.9%), sub-national and supra-national Bonds (₦523.4 billion or 2.4%) and Corporate Bonds/Debentures (₦256.6 billion or 1.2%), and the Exchange Traded Funds (ETFs) accounted for the balance (₦6.1 billion or 0.03%).

At end-December 2018, the number of listed securities rose to 286 from 261 at end-December 2017, while the number of listed companies fell to 164 from 167 at end-December 2017. The number of listed bonds rose significantly to 108 from 80 recorded at the end of preceding year, while the number of Exchange Traded Funds (ETF) remain unchanged at 9, at end-December 2018. The number of listed equities fell to 170 from 172 at end-December 2017.

4

FINANCIAL SECTOR DEVELOPMENTS

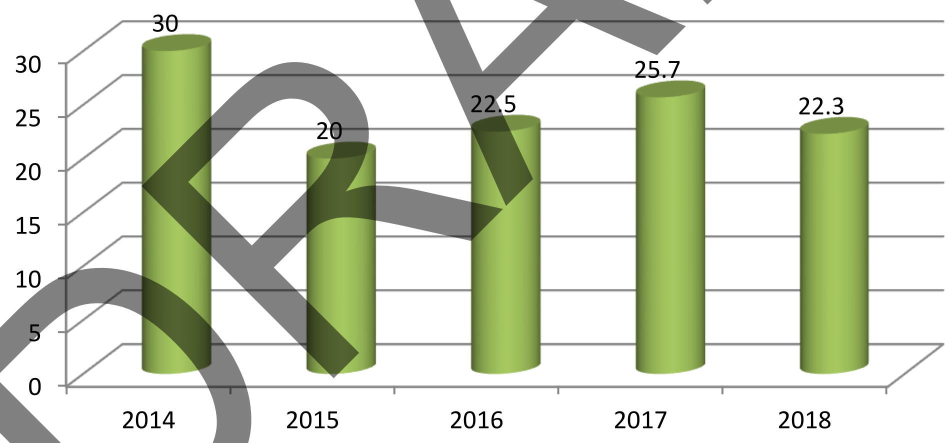
Figure 4.36: Aggregate Market Capitalisation (Per cent)



Source: SEC

Foreign portfolio investment flows was higher than domestic portfolio investment flows in eight out of twelve months in 2018. Accordingly, the share of foreign portfolio investors, in total transactions, was 50.9 per cent, while the domestic transactions accounted for 49.1 per cent of total transactions, compared with 47.5 per cent and 52.5 per cent, respectively, in 2017.

Figure 4.37: Share of Banks in the 20 Most Capitalised Stocks in the NSE, 2014 – 2018



Source: *Securities and Exchange Commission*

Table 4.15: Indicators of Capital Market Developments in the Nigerian Stock Exchange (NSE), 2014 - 2018					
	2014	2015	2016	2017	2018
Number of Listed Securities	253.00	257.00	247.00	261.00	286.00
Volume of Stocks Traded (Turnover Volume) (Billion)	108.47	92.90	95.80	100.30	101.20
Value of Stocks Traded (Turnover Value) (Billion Naira)	1338.60	952.80	575.70	1273.20	1194.30
Value of Stocks Traded/GDP (%)	1.50	1.00	0.60		21904.30
Total Market Capitalisation (Billion Naira)	16875.10	17003.40	16185.70	22917.90	2405.80
Of which: Banking Sector (Billion Naira)	2367.00	1888.80	1905.70	3292.20	
Total Market Capitalisation/GDP (%)	19.00	18.00	16.00	20.12	
Of which: Banking Sector/GDP (%)	2.70	2.00	1.90	2.90	
Banking Sec. Cap./Market Cap. (%)	14.00	8.50	11.80	14.40	11.00
Annual Turnover Volume/Value of Stock (%)	8.10	9.80	16.60	7.90	8.50
Annual Turnover Value/ Total Market Capitalisation (%)	7.90	5.60	3.50	5.60	5.50
NSE Value Index (1984=100)	34657.20	28642.30	26874.60	38243.20	31430.50
Growth (In per cent)					
Number of Listed Securities	-0.40	1.60	-3.90	5.70	9.60
Volume of Stocks	-59.40	14.40	3.20	4.70	0.90
Value of Stocks	-43.10	-29.00	-39.60	121.20	-6.20
Total Market Capitalisation	-11.50	0.80	-4.80	41.60	-4.40
Of which: Banking Sector	-19.50	-20.20	0.90	72.80	-26.90
Annual Turnover Value	0.00	-29.00	-39.60	4.70	-1.80
NSE Value Index	-16.10	-17.40	-6.20	42.30	-17.80
Share of Banks in the 20 Most Capitalised Stocks in the NSE (%)	30.00	20.90	22.50	25.70	28.91

Source: Securities and Exchange Commission

4.5.2.2 The NSE Value Index

Although market indices opened 2018 against the backdrop of gains made in 2017, the value index generally trended downwards at end-December 2018. The development was attributed, mainly, to interest rates normalisation in the USA, which led to capital flow reversals, as well as negative market sentiments. Consequently, the NSE All-Share Index, which is a key indicator on the Exchange, closed at 31,430.5 at end-December 2018, representing 17.8 per cent decrease below the 38,243.19 recorded at end-December 2017.

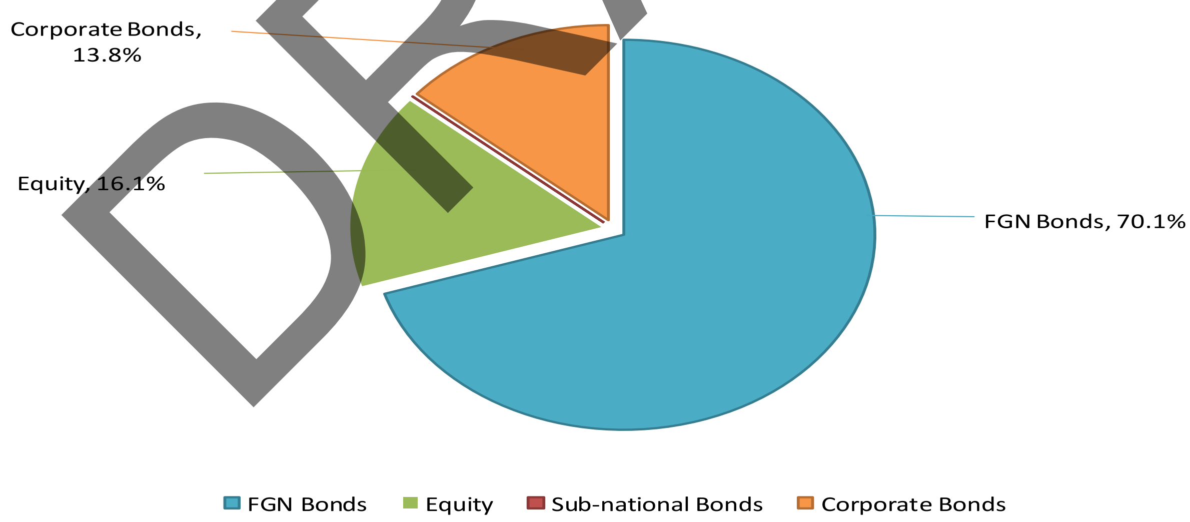
Furthermore, all twelve (12) sector indices of the NSE recorded negative growth at end-December 2018. The NSE-Oil/Gas index outperformed all other indices, declining by 8.2 per cent, other indices also declined by: NSE 30 (18.8%); NSE Consumer Goods (23.4%); NSE Banking (16.1%); NSE Insurance (10.0%); NSE Lotus Islamic (12.9%); NSE Industrial (37.5%); NSE-ASeM (25.9%); NSE Pension (12.8%); NSE Main Board (16.0%); NSE Premium (14.4%); and NSE CG (26.1%), relative to the levels at the end of the preceding year.

4.5.2.3 The New Issues Market

Activities in the primary segment of the market improved in 2018. There were 62 new securities issuance, worth ₦1.31 trillion, in the review year, compared with 54 securities, worth ₦1.98 trillion in 2017. In addition, there were supplementary listings, new issuances and one Initial Public Offering (IPO) during the review period. A total of five (5) equity rights issues, worth ₦141.0 billion, were approved by the Commission.

Notore Chemicals Industries Plc was listed by introduction on the Exchange, while four (4) companies were delisted voluntarily. Consequently, the number of listed equities declined from 172 in 2017 to 169 in 2018. In the debt securities category, sixteen (16) corporate bonds, amounting to ₦180.69 billion, and thirty-four (34) FGN bonds, worth ₦918.94 billion were issued. The total new issues approved by the SEC, amounted to ₦535.68 billion. Furthermore, there were 33 new bonds, issued by the DMO, worth ₦1.55 trillion. Consequently, the number of listed bonds and Exchange Traded Funds were 108 and 9, respectively, at end-December 2018.

Figure 4.38: New Issues by Sector 2018 (Per cent)



Source: SEC

CHAPTER FIVE

FISCAL POLICY AND GOVERNMENT FINANCE

Nigeria's fiscal policy thrust in 2018 was aimed at consolidating on the achievements of the reflationary policies of the Government in the past two years. Actual federally-collected revenue (gross) was ₦9,551.6 billion or 7.3 per cent of GDP, indicating a rise of 28.3 per cent over the amount realised in fiscal 2017. The development was attributed to the increased earnings from both oil and non-oil revenue due to improved security, continued stability in the foreign exchange market, increase in crude oil production and prices, broadening of the tax base as well as identifying and plugging revenue leakages.

The sum of ₦6,635.0 billion was transferred to the Federation Account, reflecting an increase of 51.8 per cent above the level in fiscal 2017.

The Excess Crude Account (ECA), however, fell from US$2.45 billion at end-December 2017 to US$0.48 billion at end-December 2018, owing to significant draw-down to bridge the financing gap of the three-tiers of government.

Federal Government retained revenue in 2018, at ₦4,185.6 billion, rose by 47.0 per cent above the level in fiscal 2017, while aggregate expenditure, at ₦7,813.7 billion, increased by 21.0 per cent above the level in 2017. Consequently, the fiscal operations of the Federal Government resulted in an overall deficit of ₦3,628.1 billion, or 2.8 per cent of GDP, financed through domestic and external sources.

Provisional data on state governments and the FCT finances indicated an overall deficit of ₦706.2 billion, or 0.6 per cent of GDP, while the local governments recorded a deficit of ₦0.2 billion.

The consolidated debt stock of the Federal Government stood at ₦18,901.4 billion, or 14.8 per cent of GDP, at end-September 2018, compared with ₦18,377.0 billion, or 16.2 per cent of GDP, at end-December 2017. External debt stock rose by 14.2 per cent to US$21.6 billion, following additional commercial loans that were secured to finance maturing Nigeria Treasury Bills and critical infrastructure. However, domestic debt fell by 2.4 per cent to ₦12,286.8 billion as a result of the redemption of maturing NTBs as well as reduction in the net issuance of Nigerian Treasury Bills (NTBs) and Treasury Bonds.

5.1 THE FISCAL POLICY THRUST

The 2018 Budget, "Budget of Consolidation", was aimed at leveraging the achievements of previous Budgets and delivering on the objectives of Nigeria's Economic Recovery and Growth Plan (ERGP) 2018–2020. Hence, the 2018 Budget was committed to investing in critical infrastructure capable of creating jobs and spurring economic growth, thereby sustaining the reflationary policies of these Budgets.

The specific objectives of the 2018 budget were to:

- Provide adequate counterpart funding obligations;
- Complete all ongoing projects and carry forward all strategic uncompleted projects from previous Budgets;
- Pursue a gender-sensitive, pro-poor programme, including catering for the most vulnerable;
- Implement the Conditional Cash Transfer (CCT) programme as well as continue the National Home-Grown School Feeding programme;
- Reduce violent crime across the country; and
- Commit to the security of life and property.

The key assumptions of the budget were: benchmark oil price of US$45 per barrel (pb); crude oil production of 2.3 million barrels per day (mbpd); and exchange rate of ₦305/US$. In line with these assumptions, the budget projected a distributable revenue (net) of ₦12.0 trillion, with oil revenue constituting ₦6.4 trillion or 53.3 per cent of the total; and non-oil revenue, accounting for the balance of ₦5.6 trillion or 46.7 per cent. Of the distributable revenue, the shares of the Federal and sub-national governments were projected at ₦5.0 trillion and ₦4.2 trillion, respectively. Also, the Federal Government was allocated ₦0.8 trillion and ₦1.9 trillion from independent revenue and other miscellaneous sources, respectively, bringing FGN retained revenue to ₦7.7 trillion.

The budget envisaged an aggregate expenditure of ₦8.6 trillion, comprising statutory transfers, ₦0.5 trillion; debt service (including provision for Sinking Fund), ₦2.2 trillion; non-debt recurrent expenditure, ₦3.5 trillion; and capital expenditure, ₦2.4 trillion. Thus, resulting in an overall deficit of ₦2.0 trillion or 1.8 per cent of GDP. The deficit was expected to be financed from external and domestic sources.

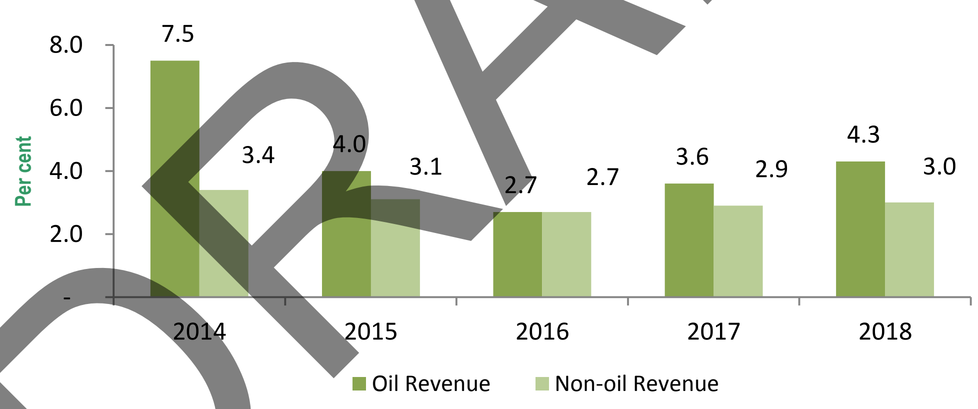
5.2 FEDERATION ACCOUNT OPERATIONS

5.2.1 Federally-collected Revenue

Total federally-collected revenue (gross) rose by 28.3 per cent to ₦9,551.6 billion in 2018, constituting 7.3 per cent of GDP. The development was attributed to improved receipts from both oil and non-oil sources. The enhanced revenue from oil was as a result of the improvement in crude oil production and prices at the international market, while the expansion of the tax base as a result of the Executive Order on Voluntary Assets and Income Declaration Scheme (VAIDS), contributed to the increase in non-oil revenue.

Total federally-collected revenue rose by 28.3 per cent to ₦9,551.6 billion in 2018 and constituted 7.3 per cent of GDP.

Figure 5.1: Oil and Non-oil Revenue (per cent of GDP), 2014 - 2018



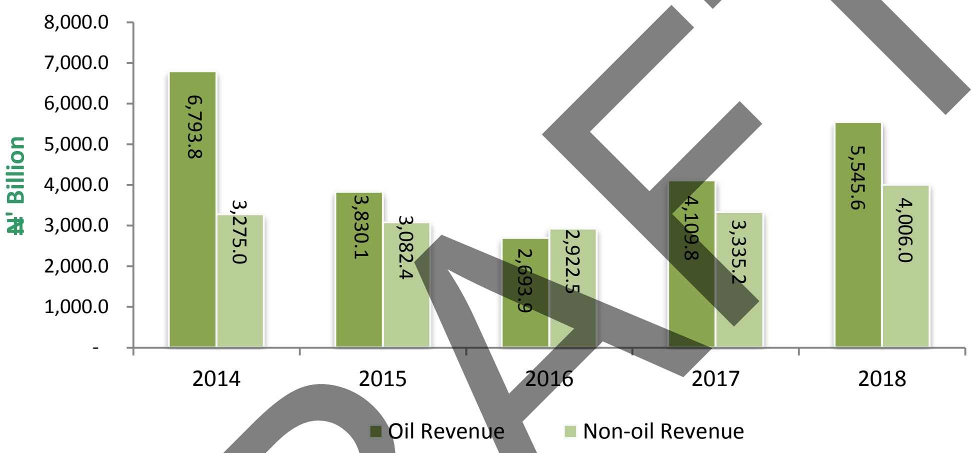
Sources: Computed based on data from the Federal Ministry of Finance (FMF) and the Office of the Accountant General of the Federation (OAGF)

5.2.1.1 Oil Revenue

Oil revenue (gross) was ₦5,545.6 billion or 4.3 per cent of GDP, representing 58.1 per cent of total federally-collected revenue. This indicated an increase of 34.9 per cent above the level in 2017. A breakdown of oil revenue showed that petroleum profit tax (PPT)/royalties rose by 106.8 per cent to ₦3,726.1 billion, attributed, largely, to improvement in crude oil prices and subsisting peace deal in the Niger Delta. The average price of crude oil in the international market increased by 32.0 per cent to US$72.6 pb in 2018, above the level in 2017. Also, average crude oil production and export increased by 9.3 and 12.6 per cent to 1.88 mbpd and 1.43 mbpd, respectively in 2018, above the levels in 2017.

Of the gross oil revenue, ₦539.0 billion was deducted for the Joint Venture Cash (JVC) calls, ₦309.5 billion for excess crude/PPT/royalty proceeds and ₦79.4 billion for "others"[3], leaving a balance of ₦4,617.7 billion for distribution to the three-tiers of government.

Figure 5.2: Federation Account: Composition of Revenue (Naira Billion), 2014 – 2018



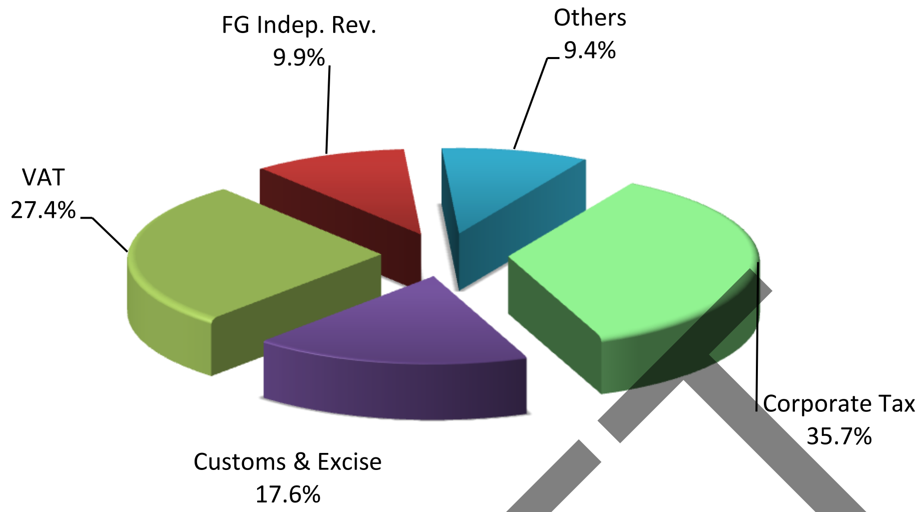
Sources: Computed based on data from the FMF and the OAGF

5.2.1.2 Non-oil Revenue

Non-oil revenue (gross), at ₦4,006.0 billion, or 3.0 per cent of GDP, accounted for 41.9 per cent of total revenue, indicating a 20.1 per cent increase above the level in 2017. The rise in non-oil revenue reflected improvement in economic activities in the non-oil sector, increased receipts by revenue collecting agencies and expansion of the tax base. A breakdown of non-oil revenue (gross) indicated that corporate tax (CT), VAT, customs & excise duties, FG Independent Revenue and "others"[4], rose by 18.5, 13.4, 12.3, 39.5 and 51.3 per cent to ₦1,429.9 billion, ₦1,097.4 billion, ₦705.5 billion, ₦395.2 billion and ₦378.0 billion, respectively. This was attributed to the introduction of VAIDS, which brought more companies and individuals into the tax net.

[3] Include Lagos State 13% derivation, Pre-Export Financing cost and DPR cost of collection.
[4] Include Education Tax, Customs Special Levies (Federation and Non-Federation Accounts) and the National Information Technology Development Fund (NITDF)

Figure 5.3: Composition of Non-oil Revenue, 2018



Sources: Computed based on data from the FMF and the OAGF

The sum of ₦161.8 billion was deducted from the non-oil revenue as cost of collection, leaving a net distributable balance of ₦3,844.2 billion.

5.2.2 Federation Account Distribution

The sum of ₦8,461.9 billion was retained in the Federation Account, representing an increase of 45.1 per cent above the level in 2017, after an aggregate statutory deduction of ₦1,089.7 billion from both oil and non-oil revenue. Of this amount, ₦1,053.7 billion, ₦395.2 billion, and ₦378.0 billion were transferred to the VAT Pool Account, FG Independent Revenue, and 'Other Transfers'[5], respectively, leaving a net revenue of ₦6,635.0 billion for distribution. In addition, ₦282.5 billion from the Exchange Rate Differential Account[6,7]; ₦23.3 billion as NNPC Additional Revenue; and ₦14.7 billion as Recovered Excess Bank Charges were added to the federally-collected revenue (net) to raise the distributable amount to ₦6,955.5 billion.

Analysis of the distribution, among the three tiers of government, showed that the Federal Government (including Special Funds) received ₦3,326.9 billion; state governments, ₦1,687.5 billion; and local governments, ₦1,301.0 billion; while ₦640.0 billion was shared as 13.0% Derivation Fund among the oil-producing states.

[5]Include the Education Tax, Customs Levies, and the National Information Technology Development Fund.
[6] Include the difference between the mandated rate and the Exchange Gain, which was shared as "**Forex Equalisation Account**"
[7] This is the difference between the budgeted and actual exchange rate, which was shared as "**Exchange Gain**"

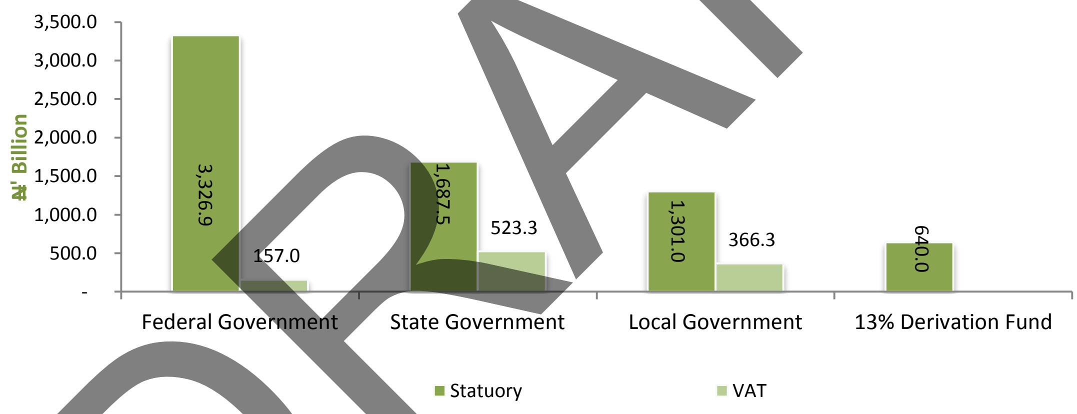
5.2.3 VAT Pool Account Distribution

The sum of ₦1,046.5 billion was transferred to the VAT Pool Account, representing an increase of 12.7 per cent above the level in 2017. Analysis of the distribution among the three-tiers of government, showed that the Federal Government (including the FCT) received ₦157.0 billion (15.0%); and state and local governments, ₦523.3 billion (50.0%) and ₦366.3 billion (35.0%), respectively.

5.2.4 Cumulative Distribution

Cumulatively, the three-tiers of government and the 13.0% Derivation Fund, shared the sum of ₦8,001.9 billion from statutory revenue and VAT in fiscal 2018. This was above the preceding year's level of ₦5,926.0 billion by 35.0 per cent, but below the fiscal 2018 target of ₦11,609.1 billion by 31.1 per cent.

Figure 5.4: Cumulative Distribution of Statutory Revenue & VAT, 2018 (Naira Billion)



Sources: Computed based on data from the FMF and the OAGF

5.3 GENERAL GOVERNMENT FINANCES

5.3.1 Aggregate Revenue

Provisional data showed that at ₦9,573.6 billion or 7.5 per cent of GDP, the aggregate revenue of general government in 2018, comprised: the Federation Account, ₦6,634.9 billion; VAT Pool Account, ₦1,046.5 billion; Exchange Gain[8], ₦282.5 billion; Recovered Excess Bank Charges, ₦14.7 billion; and NNPC Refunds, ₦23.3 billion[9]. Revenue exclusive to the Federal Government consisted of: Federal Government Independent Revenue,

[8] Includes revenue from Forex Equalisation Account
[7] Includes additional NNPC Payment to the three-tiers of Government.

₦395.2 billion; and "Others[10]", ₦306.6 billion. In addition, revenue exclusive to the sub-national (state and local) governments included: ₦772.1 billion; ₦77.4 billion; ₦1.0 billion; ₦16.1 billion; and ₦3.3 billion, from Internally-Generated Revenue, Grants, Stabilisation, State allocations to local governments and "Others", respectively.

Table 5.1: Sources of Funds for the Three-Tiers of Government 2018 (Naira Billion)

Source	Federal Government			State Governments			Local Governments	Grand Total
	FG's Share	FCT	Sub-Total	States	13%	Sub-Total		
Statutory Allocation	3,118.6	60.3	3,178.9	1,612.4	600.4	2,212.9	1,243.1	6,634.9
Share from Excess PPT Revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-
Exchange Gain	127.0	2.5	129.5	65.7	36.7	102.4	50.6	282.5
NNPC Refunds	10.5	0.2	10.7	5.4	3.0	8.4	4.2	23.3
Share of Excess Non-Oil Revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-
Solid Mineral Revenue Distribution	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-
Recovered Excess Bank Charges	7.6	0.1	7.8	3.9	0.0	3.9	3.0	14.7
Share of VAT	146.5	10.5	157.0	523.3	0.0	523.3	366.3	1,046.5
FG Independent Revenue	395.2	0.0	395.2	0.0	0.0	0.0	0.0	395.2
Privatization Proceeds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-
Internally-Generated Revenue	0.0	0.0	0.0	755.7	0.0	755.7	32.5	788.2
Less State Allocation to LG	0.0	0.0	0.0	16.1	0.0	16.1	0.0	16.1
Net Internally-Generated Revenue	0.0	0.0	0.0	739.6	0.0	739.6	32.5	772.1
Grants	0.0	0.0	0.0	71.8	0.0	71.8	5.6	77.4
Share of Stabilization Fund	0.0	0.0	0.0	1.0	0.0	1.0	0.0	1.0
State Allocation to LG	0.0	0.0	0.0	0.0	0.0	0.0	16.1	16.1
Others	306.6	0.0	306.6	0.0	0.0	0.0	3.3	309.8
TOTAL	**4,112.0**	**73.6**	**4,185.6**	**3,039.2**	**640.1**	**3,679.4**	**1,724.7**	**9,573.6**

1/Includes Distribution of US$30.0 billion from Forex Equalisation Account
Sources: FMF, OAGF, and CBN Sub-National Governments *Fiscal Survey*.

5.3.2 Aggregate Expenditure

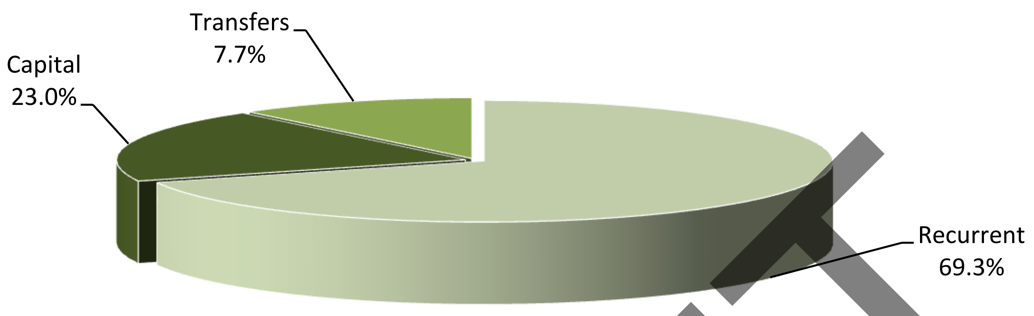
At ₦13,967.0 billion, aggregate expenditure of the general government increased by 21.5 per cent, from the level in 2017. This was attributed to the increase all its components. As a proportion of GDP, it represented 3.4 per cent, compared with 3.2 per cent in 2017. A breakdown showed that recurrent expenditure, which stood at ₦9,686.7 billion (7.6% of GDP), accounted for 69.3 per cent of the total; while capital expenditure at

At ₦13,967.0 billion, aggregate expenditure of general government increased by 21.5 per cent, above the level in 2017.

[10] Include *Revenues from Special Accounts.*

₦3,209.2 billion (2.5% of GDP); and transfers, ₦1,017.0 billion (0.8% of GDP); represented 23.0 and 7.7 per cent of the total, respectively.

Figure 5.5: Composition of General Government Expenditure, 2018



Sources: Computed based on data from the FMF & the OAGF

5.3.3 Consolidated Fiscal Balance and Financing

The fiscal operations of the general government resulted in primary and overall deficits of ₦2,130.6 billion (1.7% of GDP), and ₦4,393.3 billion (3.4% of GDP), compared with deficits of ₦2,477.7 billion (2.2% of GDP) and ₦4,388.6 billion (3.9% of GDP), respectively, in 2017. The overall deficit was financed, largely from domestic sources, especially borrowings from the non-bank public and draw-down on special accounts.

5.3.4 Consolidated Expenditure on Primary Welfare Sectors[11]

Consolidated general government spending on the primary welfare sectors indicated that expenditure on education, health as well as agriculture and natural resources rose by 11.0, 10.6 and 23.0 per cent to ₦1,299.9 billion, ₦646.8 billion and ₦330.6 billion, respectively, over the level in 2017. Aggregate expenditure on the primary welfare sectors amounted to ₦2,277.4 billion or 1.8 per cent of GDP, and accounted for 16.3 per cent of aggregate expenditure of the general government.

Aggregate general government expenditure on primary welfare sectors amounted to ₦2,277.4 billion, or 1.8 per cent of GDP, and accounted for 16.3 per cent of the total.

[11] Classification for identifying poverty-reducing expenditures

5.4 FEDERAL GOVERNMENT FINANCES

5.4.1 The Overall Fiscal Balance and Financing

The overall fiscal operations of the Federal Government resulted in a notional deficit of ₦3,628.1 billion, or 2.8 per cent of GDP, compared with the deficit of ₦3,609.4 billion, or 3.2 per cent of GDP, recorded in FY2017.

The current balance in 2018 indicated a deficit of ₦1,489.5 billion, or 1.2 per cent of GDP, compared with ₦1,932.7 billion or 1.7 per cent of GDP in fiscal 2017. Also, the primary balance recorded a deficit of ₦1,466.7 billion, or 1.1 per cent of GDP, compared with ₦1,785.5 billion, or 1.6 per cent of GDP in 2017. Furthermore, the overall fiscal balance of the Federal Government resulted in a deficit of ₦3,628.1 billion, or 2.8 per cent of GDP, compared with ₦3,609.4 billion, or 3.2 per cent of GDP in fiscal 2017. The deficit was within both the Fiscal Responsibility Act (FRA) threshold and the WAMZ primary convergence criterion of 3.0 per cent of GDP apiece, and was financed from both external and domestic sources constituting 29.6 and 70.4 per cent, respectively.

Figure 5.6: Federal Government Fiscal Deficit, 2014 - 2018 (per cent of GDP)

Sources: Computed based on data from the FMF and the OAGF

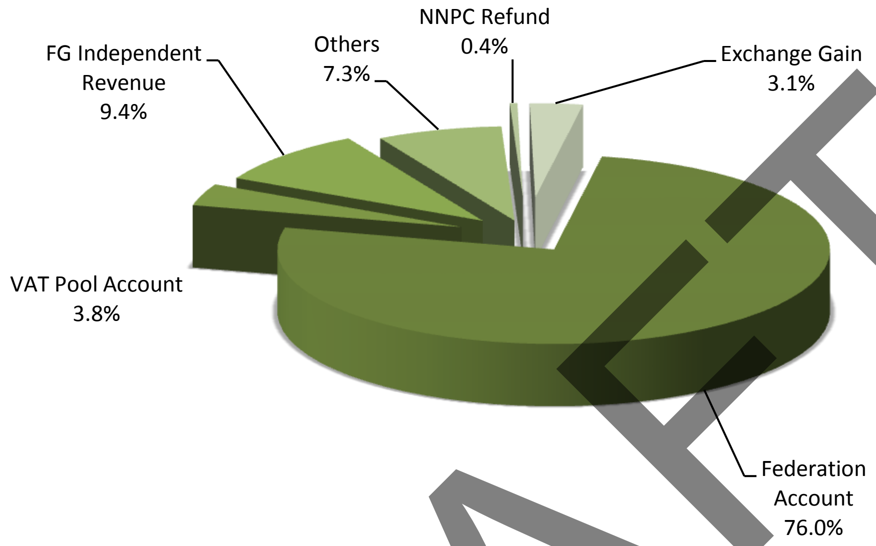
5.4.2 Federal Government Retained Revenue

The Federal Government retained revenue rose by 47.0 per cent to ₦4,185.6 billion, above ₦2,847.3 billion in 2017. This was attributed largely, to improved allocation from the Federation Account. Analysis of the revenue showed that the Federation Account contributed ₦3,179.0 billion or 76.0 per cent of the total; FG Independent Revenue, ₦395.2 billion (9.4%); and the VAT Pool

Account, ₦157.0 billion (3.8%). There were also: Exchange Gain, ₦129.5 billion (3.1%); NNPC Additional Revenue[12], ₦18.4 billion (0.4%); and 'Others''[13], ₦306.6 billion (7.3%).

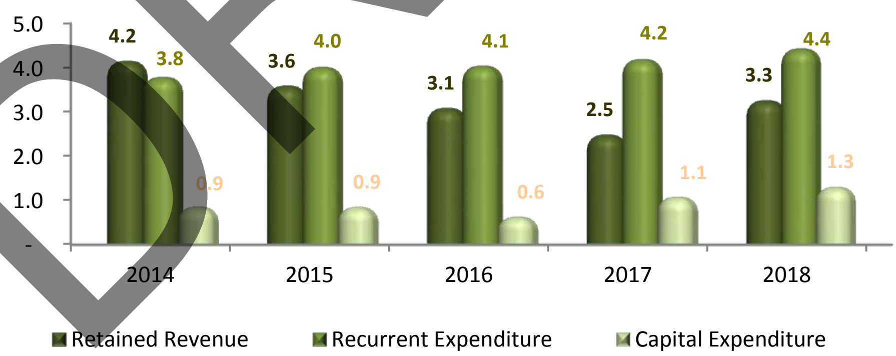
The Federal Government retained revenue rose to ₦4,185.6 billion, above ₦2,847.3 billion, in Fiscal 2017.

Figure 5.7: Composition of Federal Government Retained Revenue, 2018 (Per cent)



Sources: Computed based on data from the FMF and the OAGF

Figure 5.8: Federal Government Revenue and Expenditure, 2014 - 2018 (Per cent of GDP)



Sources: Computed based on data from the FMF and the OAGF

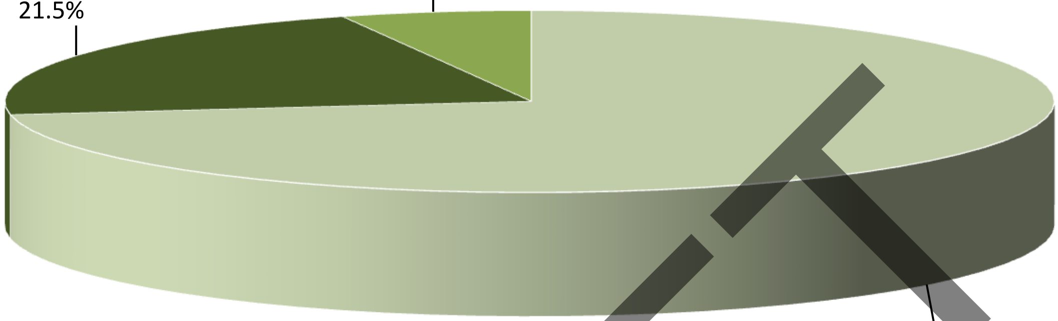
5.4.3 Total Expenditure of the Federal Government

Aggregate expenditure of the Federal Government increased by 21.0 per cent to ₦7,813.7 billion in 2018. As a proportion of GDP, it rose to 6.1 per cent over the 5.7 per cent in fiscal 2017. Non-debt expenditure rose by 22.0 per cent to ₦5,652.4 billion above the level in 2017. Total debt service payment

[12] Include Recovered excess bank charges (₦7.7 billion)
[13] Include FGN balance in special accounts and unspent balances from previous year.

amounted to ₦2,161.4 billion, or 1.7 per cent of GDP, representing 27.7 per cent of total expenditure and 51.6 per cent of total retained revenue.

Figure 5.9: Composition of Federal Government Expenditure, 2018 (Per cent)



Sources: Computed based on data from the FMF and the OAGF

5.4.3.1 Recurrent Expenditure

Recurrent expenditure, at ₦5,675.2 billion or 4.4 per cent of GDP, rose by 18.7 per cent above the level in 2017. This accounted for 72.6 per cent of the total and reflected the significant increase in personnel cost. A disaggregation of recurrent expenditure showed that interest payment[14] increased by 18.5 per cent to ₦2,161.4 billion (38.1%) of the total, compared with the level in 2017. Similarly, the goods and services component rose by 16.4 per cent to ₦3,238.1 billion (57.1%) of the total, while transfers to the special funds (FCT, stabilisation, development of natural resources and ecological funds) and "others" rose by 58.7 per cent to ₦275.7 billion (4.9%). Analysis of the goods and services component revealed that personnel cost and pensions amounted to ₦2,288.1 billion (70.7%) and overhead cost was ₦950.0 billion (29.3%). A breakdown of interest payments indicated that ₦292.4 billion, external debt and ₦1,869.0 billion, domestic debt.

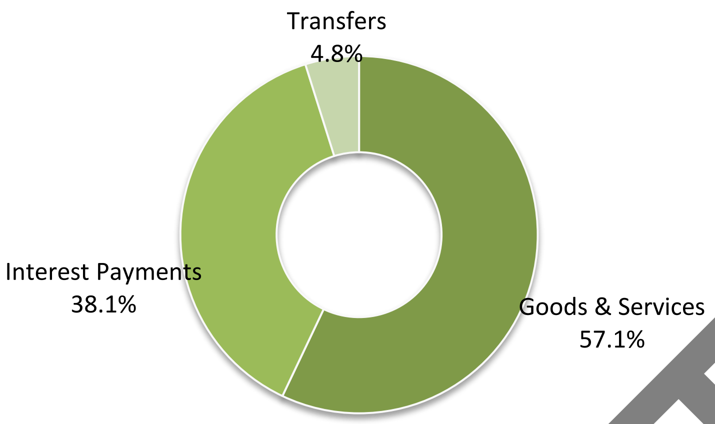
Recurrent expenditure increased to 4.4 per cent of GDP, reflecting the substantial increase in overhead cost in FY2018.

[14] Include interest payments on Ways and Means Advances.

5

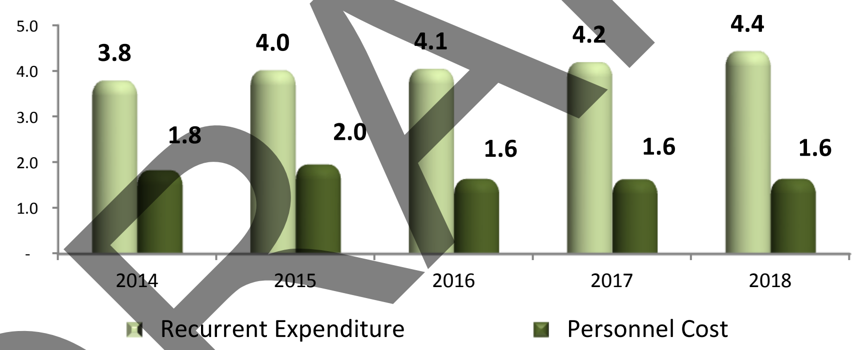
FISCAL POLICY AND GOVERNMENT FINANCE

Figure 5.10: Economic Classification of FG Recurrent Expenditure, 2018 (Per cent)



Sources: Computed based on data from the FMF and the OAGF

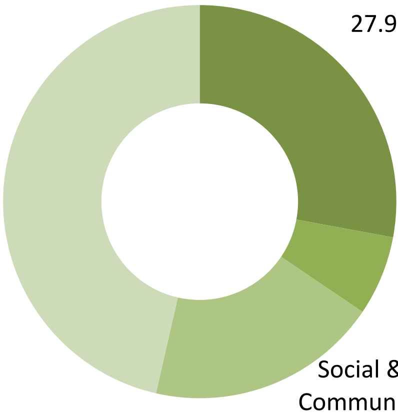
Figure 5.11: Federal Government Recurrent Expenditure & Personnel Cost, 2014 - 2018 (Per cent of GDP)



Sources: Computed based on data from the FMF and the OAGF

A functional classification of recurrent expenditure indicated that outlay on the economic sector at ₦372.5 billion, rose by 11.2 per cent and constituted 6.6 per cent of the total. Within the economic sector, roads and construction accounted for 40.3 per cent, while agriculture and natural resources, transport and communications and "others" were 14.5, 8.2, and 37.0 per cent of the total, respectively. Similarly, expenditure on administration, and social and community services at ₦1,584.1 billion (27.9%) of the total and ₦1,083.7 billion (19.1%), respectively, rose by 19.6 and 16.3 per cent above the levels in 2017. Transfers at ₦2,634.9 billion constituted 46.4 per cent of total recurrent expenditure. Within the social and community services sector, education and health constituted 42.9 and 27.4 per cent, respectively.

Figure 5.12: Functional Classification of Federal Government Recurrent Expenditure, 2018 (Per cent)



Sources: Computed based on data from the FMF and the OAGF

5.4.3.2 Capital Expenditure

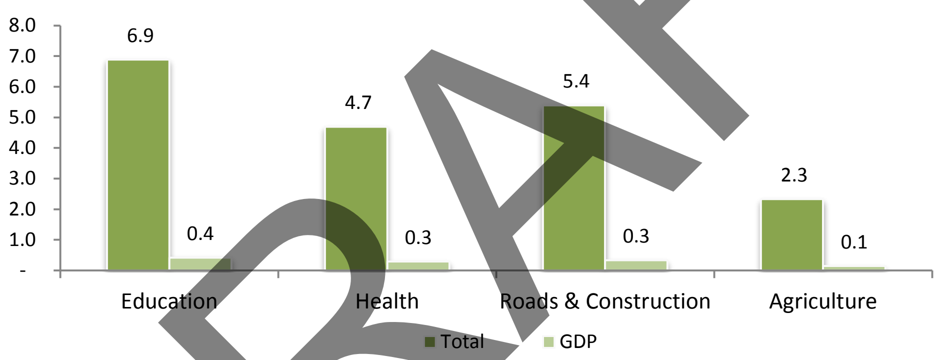
Capital expenditure rose by 35.4 per cent to ₦1,682.1 billion, above the level in 2017 constituting 21.5 per cent of total expenditure. The significant increase in capital spending was largely, due to the high rate of capital releases during the period compared with 2017. As a percentage of GDP, capital expenditure was 1.3 per cent, compared with 1.1 per cent in 2017. Analysis of capital expenditure by function showed that outlays in the economic and administration sectors were ₦753.5 billion and ₦446.2 billion, or 44.8 and 26.5 per cent of the total, respectively, compared with 43.6 and 26.5 per cent in 2017. Within the economic sector, roads and construction, and agriculture and natural resources accounted for 36.0 and 17.0 per cent of the total, respectively. Public investment in social and community services constituted ₦203.4 billion or 12.1 per cent of total capital expenditure, while transfers amounted to ₦278.9 billion or 16.6 per cent of the total. Within the social and community services sector, education and health accounted for 35.8 and 34.7 per cent of the total, respectively. As ratios of capital spending, expenditure on education and health at 4.3 and 4.2 per cent fell below the 4.5 and 4. 3 per cent, respectively in fiscal 2017.

Capital expenditure rose by 35.4 per cent to ₦1,682.1 billion and accounted for 21.5 and 1.3 per cent of total expenditure and GDP, respectively.

Analysis of total Federal Government spending on the primary welfare sectors revealed that expenditure on agriculture and natural resources fell by 33.5 per cent to ₦182.3 billion relative to the level in 2017. Furthermore, outlay on health, education and roads and construction increased by 22.8, 17.1 and 39.8 per cent, respectively, to ₦367.1 billion, ₦538.1 billion and ₦421.6 billion, compared with the levels in 2017. Aggregate expenditure on the primary welfare sectors amounted to ₦1,509.1 billion, or 1.2 per cent of GDP, and constituted 19.3 per cent of total expenditure.

Aggregate expenditure on primary welfare sectors amounted to ₦1,509.1 billion, or 1.2 per cent of GDP, and constituted 19.3 per cent of total expenditure.

Figure 5.13: Federal Government's Expenditure on Key Primary Welfare Sectors, 2018 (Per cent of Total and GDP)



Sources: Computed based on data from the FMF and the OAGF

5.5 STATE GOVERNMENTS AND FCT FINANCES[15]

5.5.1 The Overall Fiscal Balance and Financing

Provisional data on state governments (including the FCT) fiscal operations indicated a deficit of ₦706.2 billion or 0.6 per cent of GDP, compared with the deficit of ₦710.4 billion or 0.6 per cent of GDP in 2017. This was financed, largely, from domestic borrowings (commercial bank loans, restructured loans on FGN Bonds and new bond issues).

Provisional data on state governments finances indicated a decrease in the overall deficit to ₦706.2 billion, down from ₦710.4 billion in 2017.

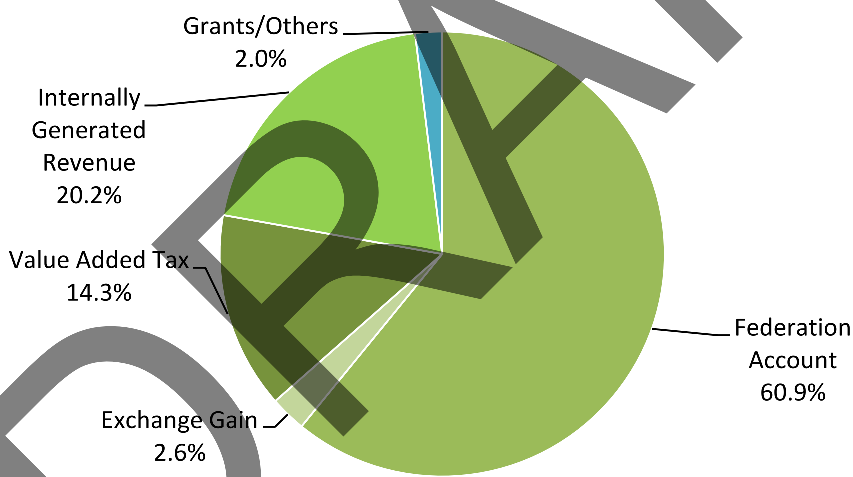
[15]The provisional data are from the CBN survey returns from 36 states and the FCT.

5.5.2 Revenue

Total revenue of state governments grew by 24.7 per cent to ₦3,733.0 billion, or 2.9 per cent of GDP, compared with ₦2,992.5 billion or 2.6 per cent of GDP in 2017. Analysis of the sources of revenue showed that allocation from the Federation Account (including 13.0% Derivation Fund) was ₦2,273.1 billion, or 60.9 per cent of the total; VAT Pool Account, ₦533.7 billion (14.3%); Exchange Gain[16], ₦97.6 billion (2.6%); and "Grants and Others" (including share of Stabilisation Fund), ₦72.8 billion (2.0%). In addition, Internally-Generated Revenue (IGR) constituted ₦755.7 billion (20.2%), indicating a decline of 1.2 per cent below the level in 2017.

Total revenue of the state governments grew by 24.7 per cent to ₦3,733.0 billion, or 2.9 per cent of GDP.

Figure 5.14: State Governments' and FCT's Revenue, 2018 (Naira Billion)



Sources: Computed based on data from the FMF and the OAGF

Analysis of the state tax effort proxied by the ratio of IGR to total revenue showed that Lagos State ranked highest with 62.6 per cent, followed by Rivers and Kwara states with 36.2 and 28.5 per cent, respectively, while Bayelsa State ranked the least with 3.9 per cent. Overall, state governments tax effort in 2018 deteriorated by 4.8 percentage point relative to 2017.

[16] Include NNPC Additional Distribution of ₦8.6 billion, Forex Equalisation Account and Recovered Excess Bank charges

Table 5.2: State Governments Revenue						
	State Governments Revenue				Share in Overall GDP	
Item	2017 1/		2018 1/		2017	2018
	Amount (₦' Billion)	Share (%)	Amount (₦' Billion)	Share (%)	%	%
Federation Account 2/	1,462.3	48.9	2,273.1	60.9	1.3	1.8
Excess Crude Revenue 3/	217.9	7.3	97.6	2.6	0.2	0.1
VAT	473.8	15.8	533.7	14.3	0.4	0.4
Internally Generated Revenue	765.0	25.6	755.7	20.2	0.7	0.6
Grants & Others 4/	73.6	2.5	72.8	2.0	0.1	0.1
Total	**2,992.5**	**100.0**	**3,733.0**	**100.0**	**2.6**	**2.9**

1/ Including FCT
2/ Include 13% Derivation Fund
3/ Include Exchange Gain, NLNG Distribution in 2016, NNPC Additional Distribution and Distribution from Forex Equalisation Account in 2017 & 2018 and recovered excess bank charges.
4/ Include stabilisation fund.

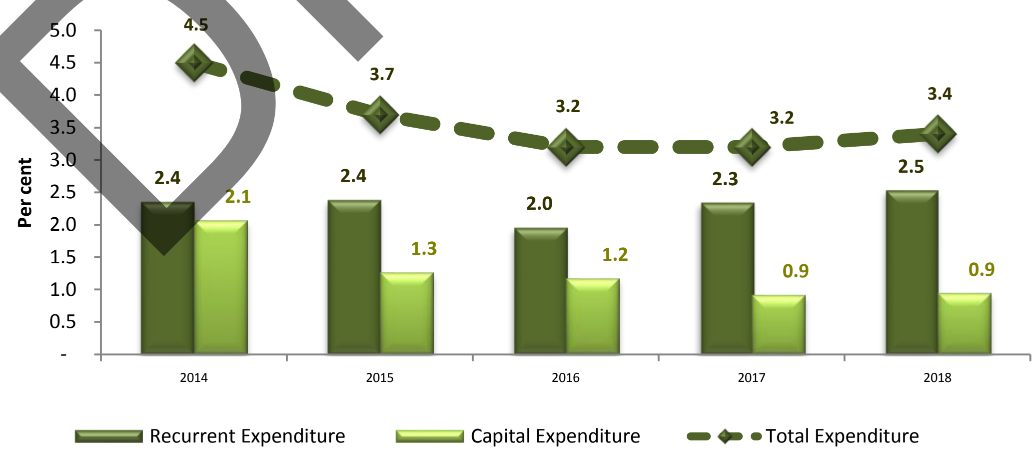
Sources: FMF, OAGF and Fiscal Survey of Sub-National Governments

5.5.3 Expenditure

Estimated total expenditure of state governments increased by 19.9 per cent to ₦4,439.2 billion or 3.4 per cent of GDP. A breakdown showed that, at ₦3,231.9 billion or 2.5 per cent of GDP, recurrent expenditure was 21.4 per cent above the level in 2017, and accounted for 72.8 per cent of the total. Capital expenditure, at ₦1,207.4 billion or 0.9 per cent of GDP, was 16.1 per cent above the level in 2017 and constituted 27.2 per cent of the total.

The total expenditure of the state governments rose by 19.9 per cent to ₦4,439.2 billion, or 3.4 per cent of GDP.

Figure 5.15: State Governments' Expenditure, 2014 - 2018 (per cent of GDP)

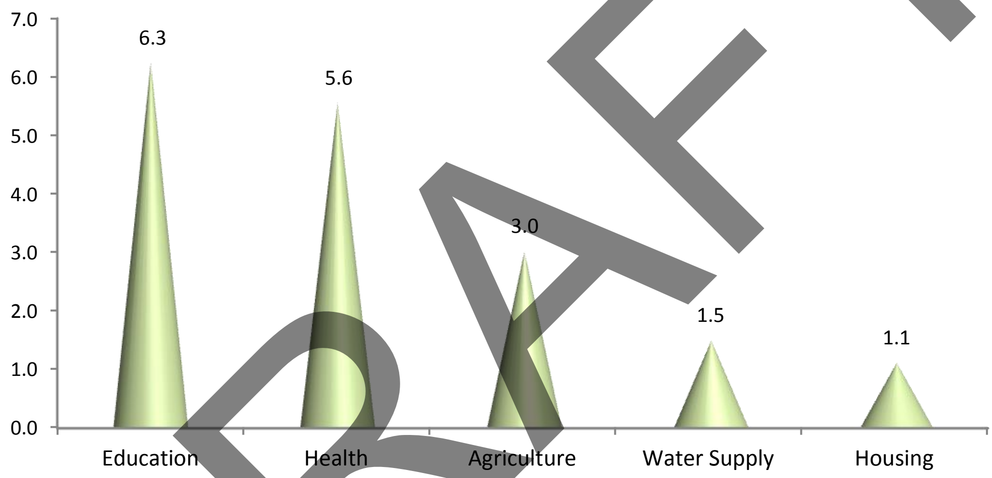


Source: Computed from *CBN's Sub-national Governments' Fiscal Survey*

Analysis of spending on primary welfare sectors indicated that outlay on education fell by 9.2 per cent to ₦277.7 billion, below the ₦305.8 billion recorded in 2017, and represented 31.9 per cent of the total. Also, expenditure on housing and health dropped by 13.0 and 6.7 per cent to ₦49.6 billion and ₦247.2 billion, respectively, relative to the levels in 2017. However, expenditure on Water Supply and Agriculture rose by 19.7 and 9.0 per cent to ₦66.7 billion and ₦247.2 billion, respectively, relative to the levels in 2017. Aggregate expenditure on primary welfare sectors amounted to ₦775.4 billion, or 0.6 per cent of GDP, and accounted for 17.5 per cent of total expenditure.

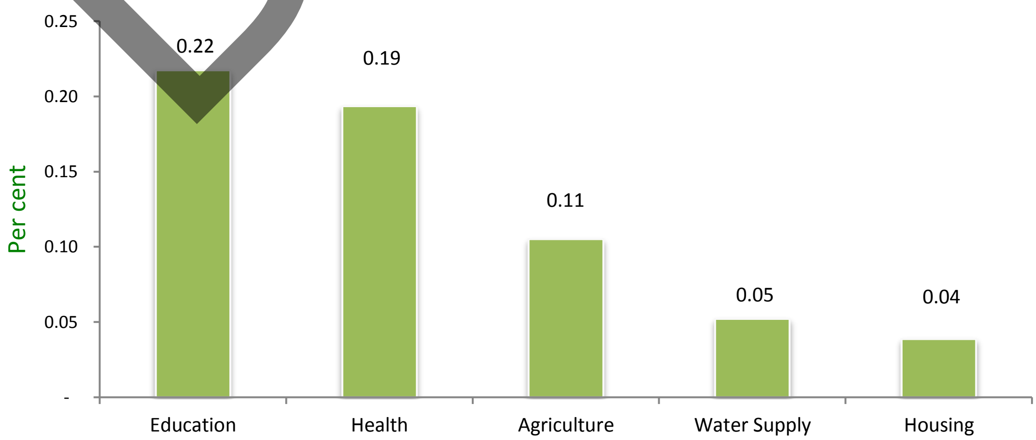
Aggregate expenditure on primary welfare sectors amounted to ₦775.4 billion, or 0.6 per cent of GDP, and accounted for 17.5 per cent of total expenditure.

Figure 5.16: State Governments' Expenditure in Key Primary Welfare Sectors, 2018 (Per cent of Total Expenditure)



Source: Computed from *CBN's Sub-national Governments' Fiscal Survey*

Figure 5.17: State Governments' Expenditure in Key Primary Welfare Sectors, 2018 (Per cent of GDP)



Source: Computed from *CBN's Sub-national Governments' Fiscal Survey*

5

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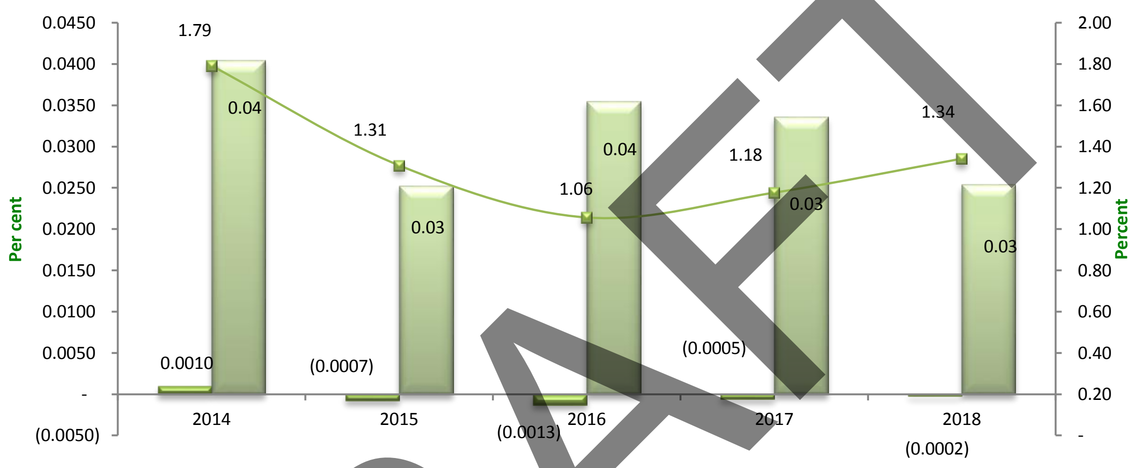
5.6 LOCAL GOVERNMENTS FINANCES

5.6.1 The Overall Fiscal Balance and Financing

Provisional data on the fiscal operations of local governments indicated a deficit of ₦0.2 billion, compared with ₦0.6 billion in 2017. This was financed, largely, from domestic borrowings.

Provisional data on local governments fiscal operations indicated a deficit of ₦0.2 billion.

Figure 5.18: Local Governments' Revenue & Overall Balance, 2014 - 2018 (Per cent of GDP)



Sources: Computed based on data from the FMF and CBN's *Sub-national Government's Fiscal Survey.*

5.6.2 Revenue

Provisional data on total revenue of local governments, at ₦1,714.0 billion or 1.3 per cent of GDP, represented an increase of 28.1 per cent above the level in 2017. The revenue comprised allocations from the Federation Account, ₦1,243.1 billion (72.5%); and the VAT Pool Account, ₦366.3 billion (21.4%). Others included: Exchange Gain, ₦41.7 billion (2.4%); NNPC Additional Revenue, ₦4.2 billion (0.2%); Recovered Excess Bank Charges, ₦2.9 billion (0.2%); State Allocation, ₦14.2 billion (0.8%); Grants & others, ₦5.6 billion (0.3%), while 'Others' amounted to ₦3.3 billion (0.2%). In addition, IGR accounted for ₦32.5 billion (1.9%), indicating a 15.0 per cent decline below the level in 2017.

The total provisional revenue of local governments at ₦1,714.0 billion, rose by 28.1 per cent above the level in F2017

Analysis of the cumulative local governments IGR on a state by state basis showed that Lagos State ranked highest with 14.1 per cent of the total, while Kwara State ranked the least with 0.4 per cent of the total.

Table 5.3: Local Governments Revenue

Item	Local Governments Revenue				Share in Overall GDP	
	2017		2018 1/		2017	2018
	Amount (₦' Billion)	Share (%)	Amount (₦' Billion)	Share (%)	%	%
Federation Account	828.9	62.0	1,243.1	72.5	0.7	1.0
VAT	325.1	24.3	366.3	21.4	0.3	0.3
Internally Generated Revenue	38.2	2.9	32.5	1.9	0.0	0.0
Non-Oil Excess/Recovered Bank Charges	0.2	0.0	2.9	0.2	0.0	0.0
Excess Crude/ PPT	37.2	2.8	-	-	0.0	-
Exchange Gain	66.6	5.0	41.7	2.4	0.1	0.0
Budget Augmentation/ NNPC Additional Revenue		-	4.2	0.2		
NNPC Refund	5.4	0.4		-		
Grants & Others 2/	36.4	2.7	23.1	1.3	0.0	0.0
Total	**1,338.0**	**100.0**	**1,713.8**	**100.0**	**1.2**	**1.3**

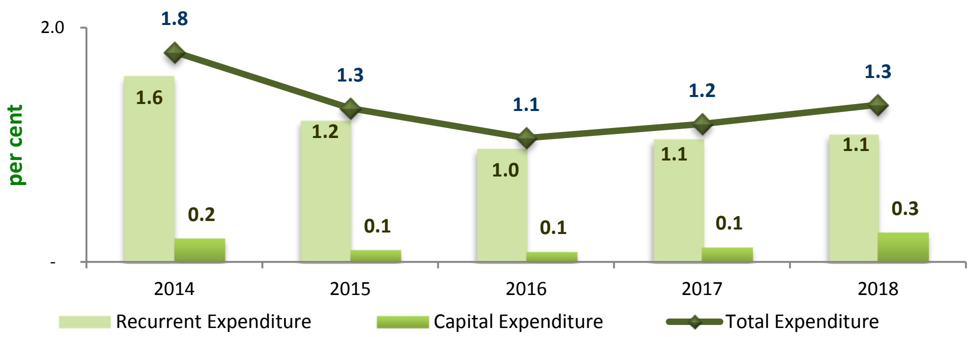
1/Provisional
2/Include State Allocation and other miscellaneous revenue
Sources: FMF, OAGF, and Sub-National Governments' Fiscal Survey.

5.6.3 Expenditure

At ₦1,714.0 billion, estimated total expenditure of local governments exceeded the level in 2017 by 28.0 per cent and represented 1.3 per cent of GDP. A breakdown indicated that recurrent outlay was ₦1,394.3 billion or 81.3 per cent of the total, while capital expenditure amounted to ₦319.8 billion or 18.7 per cent of the total.

The expenditure of the local governments was 28.0 per cent above the level in 2017 and represented 1.3 per cent of the GDP.

Figure 5.19: Local Governments' Expenditure, 2014 - 2018 (per cent of GDP)



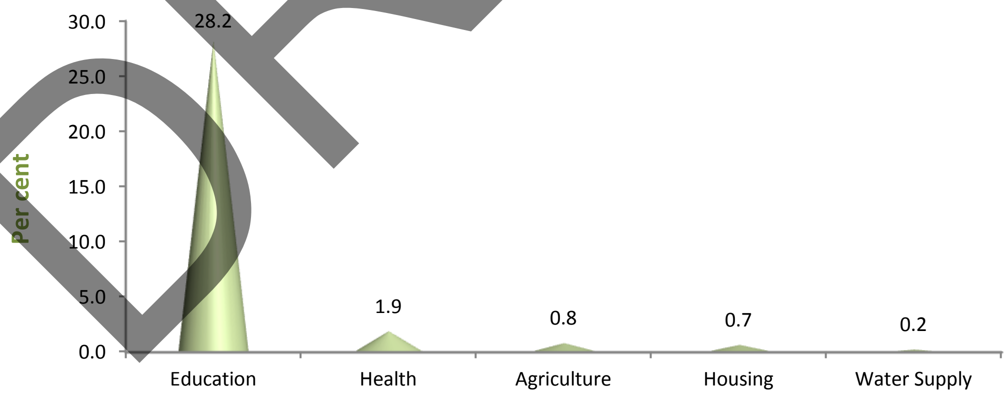
Source: Computed based on data from the FMF and CBN's *Sub-national Governments' Fiscal Survey*

A breakdown of recurrent expenditure showed that personnel cost was ₦1,000.5 billion (71.8%) of the total, while overheads and consolidated revenue fund charges & others amounted to ₦191.9 billion (13.8%) and ₦201.8 billion, (14.5%), respectively. A disaggregation of capital expenditure by functions revealed that the share of social and community services was ₦93.9 billion (29.4%); economic services, ₦70.3 billion (22.0%); administration, ₦119.2 billion (37.3 %), and transfers, ₦36.4 billion (11.4%).

Aggregate expenditure on the primary welfare sectors increased by 22.2 per cent above the level in 2017 and accounted for 31.9 per cent of total expenditure.

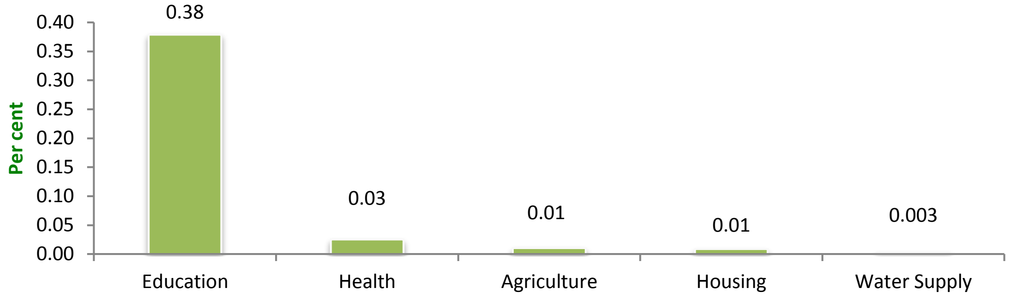
Analysis of spending on primary welfare sectors showed that expenditures on housing, health, agriculture, water supply, and education increased by 62.0, 53.4, 53.2, 37.6 and 19.1 per cent, respectively compared with the levels in 2017. Overall, at ₦546.0 billion or 0.4 per cent of GDP, aggregate expenditure on the primary welfare sectors increased by 22.2 per cent above the level in 2017, and accounted for 31.9 per cent of total expenditure.

Figure 5.20: Local Governments' Expenditure on Primary Welfare Sectors, 2018 (Per cent of Total Expenditure)



Sources: Computed based on CBN's Sub-national Governments' Fiscal Survey.

Figure 5.21: Local Governments' Expenditure on Primary Welfare Sectors, 2018 (Per cent of GDP)

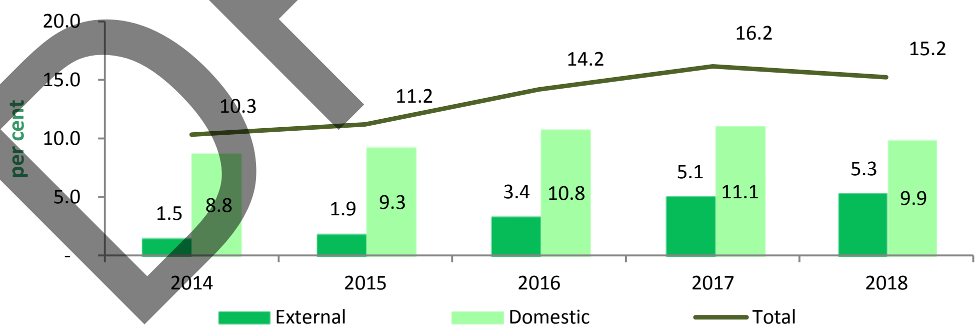


Sources: Computed based on CBN's *Sub-national Governments' Fiscal Survey.*

5.7 CONSOLIDATED FEDERAL GOVERNMENT DEBT

Provisional data on the consolidated Federal Government debt stock, at end-September 2018, was ₦18,901.4 billion, or 15.2 per cent of GDP, compared with ₦18,377.0 billion or 16.2 per cent of GDP in 2017. This indicated an increase of 2.9 per cent, reflecting largely, the additional borrowing from both external and domestic sources, to bridge the FGN financing gap. Analysis of the debt stock showed that the domestic component constituted 65.0 per cent, while external debt accounted for 35.0 per cent of the total.

Figure 5.22: Consolidated Public Debt Stock, 2014 - 2018 (Per cent of GDP)



Sources: Computed based on data from the DMO and the CBN

5.7.1 Domestic Debt

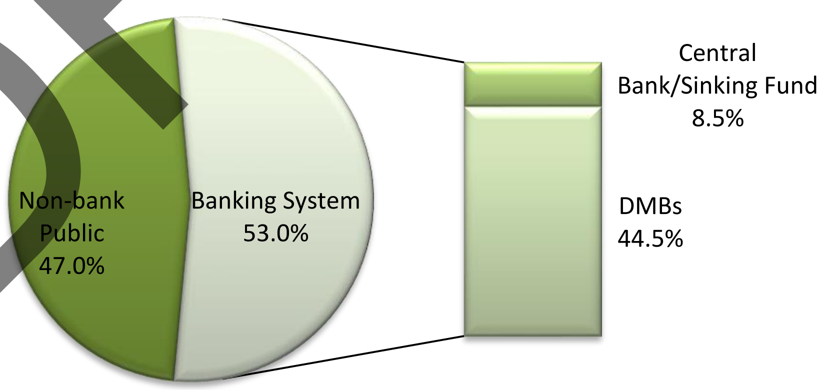
The stock of Federal Government domestic debt at end-September 2018 was ₦12,286.8 billion or 9.9 per cent of GDP, representing a decline of 2.4 per cent below the level in 2017. The development reflected the decline in the issuance of existing domestic debt securities, Nigerian Treasury Bills (NTBs) and FGN Bonds as well as the redemption of maturing NTBs amounting to ₦638.9 billion. As a result, the outstanding FGN Bonds increased by 5.6 per cent to

₦9,201.4 billion, while the Treasury Bills and Treasury Bonds declined by 21.4 and 14.2 per cent to ₦2,814.0 billion and ₦151.0 billion, respectively, at end-September 2018, below the levels at end-December 2017. The banking system remained the dominant holder of outstanding domestic debt with ₦6,508.4 billion or 53.0 per cent, while the non-bank public accounted for the balance of ₦5,778.4 billion or 47.0 per cent. Thus, the shares of the non-bank public and the banking system increased by 2.4 per cent apiece above the level in 2017. A disaggregation of the banking system holdings showed that the banks held 83.9 per cent while the CBN and the Sinking Fund accounted for the balance of 16.1 per cent.

The stock of Federal Government domestic debt outstanding at end-September 2018 stood at ₦12,286.6 billion, representing a decline of 2.4 per cent below the level at end-December 2017.

Analysis of the maturity structure of domestic debt showed that long-term instruments (tenors of over three years) accounted for ₦6,101.2 billion, or 49.7 per cent. Medium-term instruments (tenors of 1-3 years) amounted to ₦1,424.9 billion or 11.6 per cent, while short-term instruments (tenors of below one year) amounted to ₦4,760.7 billion, or 38.7 per cent.

Figure 5.23: Composition of Domestic Debt Stock by Holder, 2018



Source: Computed based on Data from the DMO

5.7.2 External Debt

At US$21.6 billion or 5.3 per cent of GDP, Nigeria's external debt at end-September 2018 grew by 14.2 per cent over the level at end-December 2017. The rise reflected largely, additional disbursements on commercial loans (Euro and Diaspora bonds), for infrastructure funding and refinancing of matured NTBs. This was in line with Nigeria's Debt Management Strategy, aimed at restructuring the outstanding debt portfolio and gradually, reducing the share of the domestic component to 60.0 per cent. The Federal Government thus, sought to switch the debt portfolio in favour of cheaper and longer tenored foreign concessionary loans to reduce its debt service burden. As part of the strategy, maturing NTBs were refinanced from commercial loans (Eurobonds), thereby increasing the stock of Eurobonds from US$6.0 billion in 2017 to US$ 8.0 billion.

A breakdown of the debt portfolio showed that Debt to multilateral institutions (concessional loans) was US$10.9 billion or 50.4 per cent of the total, while commercial and bilateral debts, at US$8.3 billion and US$2.4 billion, respectively accounted for 38.4 and 11.1 per cent.

5.7.3 Debt Service

Total debt service[17] was ₦1,965.4 billion, or 1.6 per cent of GDP, indicating an increase of 21.5 per cent above the level in 2017. A disaggregation showed that external debt component was ₦390.9 billion (US$1.3 billion) or 19.9 per cent of the total, while domestic debt accounted for ₦1,574.6 billion or 80.1 per cent. External debt service consisted of interest payments of 46.9 per cent and amortisation[18] of 53.1 per cent. However, interest payments constituted 100.0 per cent of the total domestic debt service.

[17]Represents actual debt service payments by the Debt Management Office which may differ from the figures in the Federal Government finances table that indicates contributions to the external creditors' fund.
[18] Principal Repayment

CHAPTER SIX

REAL SECTOR DEVELOPMENTS

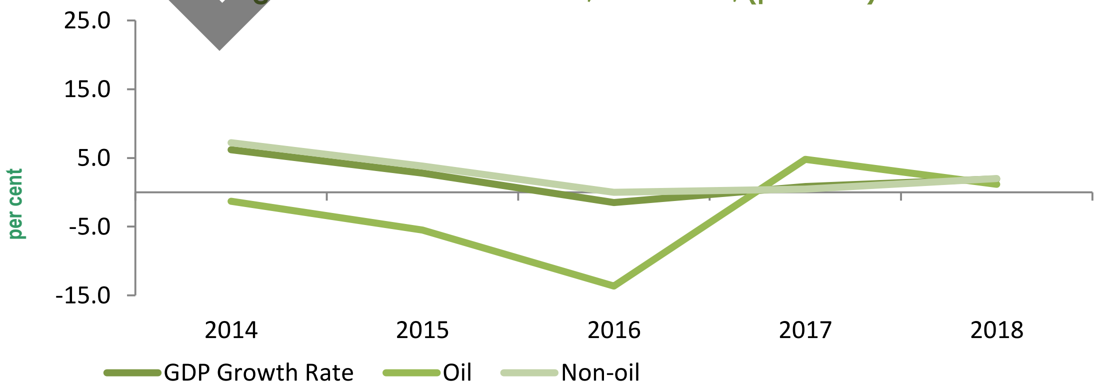
The economy witnessed sustained growth in 2018. The real Gross Domestic Product (GDP), measured at 2010 constant basic prices, grew by 1.9 per cent, compared with the growth of 0.8 per cent in 2017. The development was attributed, largely to fiscal stimulus due to increase in international price of crude oil, which led to increased infrastructural spending following sustained implementation of the Economic Recovery and Growth Plan (ERGP); sustained implementation of the Anchor Borrowers' Programme; increased capital inflow arising from improved investor confidence in the economy, improved access to foreign exchange; as well as, ameliorating inflationary pressures. Oil and non-oil sectors output grew by 1.1 and 2.0 per cent, respectively. Analysis by sector showed that services, construction, agriculture and industry grew by 3.1, 2.3, 2.1 and 1.7 per cent, respectively, while trade sector contracted by 0.6 per cent during the year. The year-on-year headline inflation remained above the benchmark single-digit rate throughout 2018. The development was attributed largely to sustained inflationary pressures from the food CPI, pass-through effect of exchange rate to domestic prices, as well as, structural rigidities which still pervade the economy.

6.1 DOMESTIC OUTPUT

Provisional data from the National Bureau of Statistics (NBS) showed that the Gross Domestic Product (GDP), measured at 2010 constant basic prices, was ₦69.80 trillion for 2018. This indicated a growth of 1.9 per cent, compared with 0.8 per cent in 2017.

The Gross Domestic Product (GDP), measured at 2010 constant basic prices was ₦69.8 trillion in 2018, indicating a growth of 1.9 per cent, compared with a growth of 0.8 per cent in 2017.

Figure 6.1 GDP Growth Rate, 2014-2018, (per cent)



Source: National Bureau of Statistics (NBS)

The growth was driven by the services, agriculture, industry and construction sectors which contributed 1.1, 0.5, 0.3 and 0.1 per cent, respectively, while trade sector contributed negative growth of 0.11 per cent.

Table 6.1: Sectoral Contributions to Growth Rates of GDP at 2010 Constant Basic Prices (percentage points)

Activity Sector	2014	2015	2016	2017	2018
1. Agriculture	**1.0**	**0.9**	**1.0**	**0.84**	**0.53**
Crop Production	0.9	0.7	0.9	0.80	0.51
2. Industry	**1.23**	**-0.7**	**-1.7**	**0.38**	**0.30**
Crude Petroleum	-0.2	-0.6	-1.3	0.40	0.10
3. Construction	**0.5**	**0.2**	**-0.2**	**0.04**	**0.09**
4. Trade	**1.0**	**0.9**	**-0.04**	**-0.18**	**-0.11**
5. Services	**2.6**	**1.6**	**-0.4**	**-0.25**	**1.11**
Information & Communications	0.8	0.7	0.2	-0.12	1.10
TOTAL (GDP)	**6.2**	**2.8**	**-1.5**	**0.83**	**1.93**
NON-OIL (GDP)	**7.2**	**3.8**	**-0.2**	**0.47**	**2.00**

Source: NBS

The boost in economic activities in 2018 was attributed to various factors, namely: increased international crude oil prices, which led to fiscal stimulus; increased infrastructural spending following sustained implementation of the Economic Recovery and Growth Plan (ERGP); sustained implementation of the Anchor Borrowers' Programme (ABP); increased capital inflow arising from improved investor confidence in the economy; enhanced access to foreign exchange; and lower inflationary pressures. These factors contributed to sustained growth witnessed in agricultural production, robust improvement in information and telecommunication services, improved manufacturing sub-sector and construction sector performance.

The non-oil sector remained the main driver of growth in 2018, expanding by 2.0 per cent compared with 0.5 per cent recorded in 2017. The oil sector also grew by 1.1 per cent compared with 4.8 per cent in 2017. The services sector recorded the highest growth rate of 3.05 per cent, compared with a contraction of 0.7 per cent recorded in 2017. Within the sector, transport was the highest growing sub-sector at 13.9 per cent, followed by, information and communication technology (ICT), utilities, arts, entertainment and recreation, and "other services" at 9.7, 7.3, 2.5 and 2.2 per cent, respectively.

Furthermore, construction, agriculture and industry sectors grew by 2.3, 2.1, and 1.7 per cent, respectively, while trade sector contracted by 0.6 per cent during the year.

Table 6.2: Sectoral Growth Rates of GDP at 2010 Constant Basic Prices

(Per cent)

Activity Sector	2014	2015	2016	2017	2018
1. Agriculture	**4.3**	**3.7**	**4.1**	**3.45**	**2.12**
Crop Production	4.1	3.5	4.3	3.64	2.26
Livestock	5.4	6.0	2.9	1.61	0.33
Forestry	4.6	3.7	2.6	3.31	3.06
Fishing	6.7	5.9	-0.7	1.34	1.64
2. Industry	**6.0**	**-3.4**	**-9.0**	**2.14**	**1.69**
Crude Petroleum	-1.3	-5.5	-13.7	4.79	1.14
Solid Minerals	14.9	7.7	-14.6	0.14	10.11
Manufacturing	14.7	-1.5	-4.3	-0.21	2.09
3. Construction	**13.0**	**4.4**	**-6.0**	**1.00**	**2.33**
4. Trade	**5.9**	**5.1**	**-0.2**	**-1.05**	**-0.63**
5. Services	**7.1**	**4.5**	**-1.2**	**-0.67**	**3.05**
Transport	4.4	4.5	0.4	3.86	13.91
Information & Communications	7.0	2.0	2.0	-1.04	9.65
Utilities	-3.3	-4.0	-8.7	12.64	7.27
Accomodation & Food services	18.3	2.3	-5.3	-1.61	1.76
Finance & Insurance	8.1	7.1	-4.5	1.26	2.03
Real Estate	5.1	2.1	-6.9	-4.27	-4.74
Human Health & Social Services	10.5	2.5	-1.8	-0.31	-0.32
TOTAL (GDP)	**6.2**	**2.8**	**-1.5**	**0.83**	**1.93**
NON-OIL (GDP)	**7.2**	**3.8**	**-0.2**	**0.47**	**2.00**

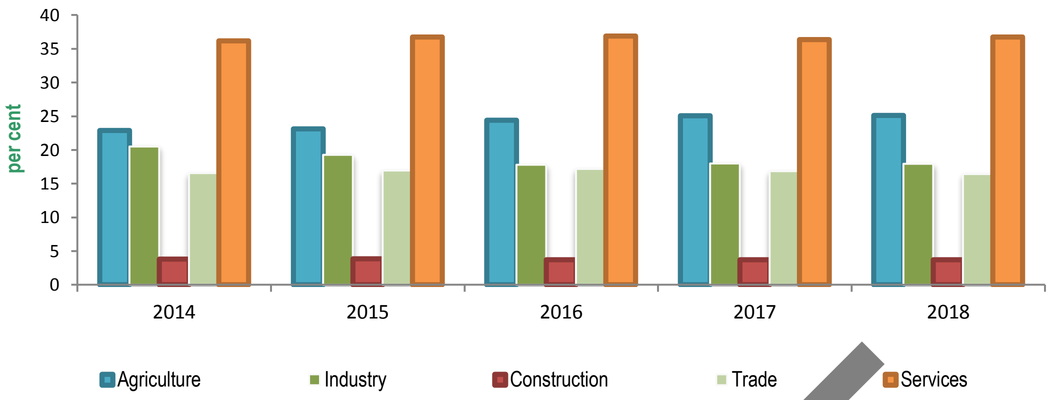
Source: NBS

At 36.8 per cent of total real GDP in 2018, the services sector accounted for the largest share compared with 36.4 per cent in 2017. Within the services sub-sector, information and communications contributed 12.2 per cent of total GDP, followed by real estate (6.4%), 'other services' (3.4%), professional (3.6%), finance and insurance (3.0%), public administration (2.2%), education (2.2%) and transport (1.4%). Furthermore, agriculture, industry, trade, and construction contributed 25.1, 17.9, 16.4 and 3.7 per cent, respectively, to the real GDP.

6

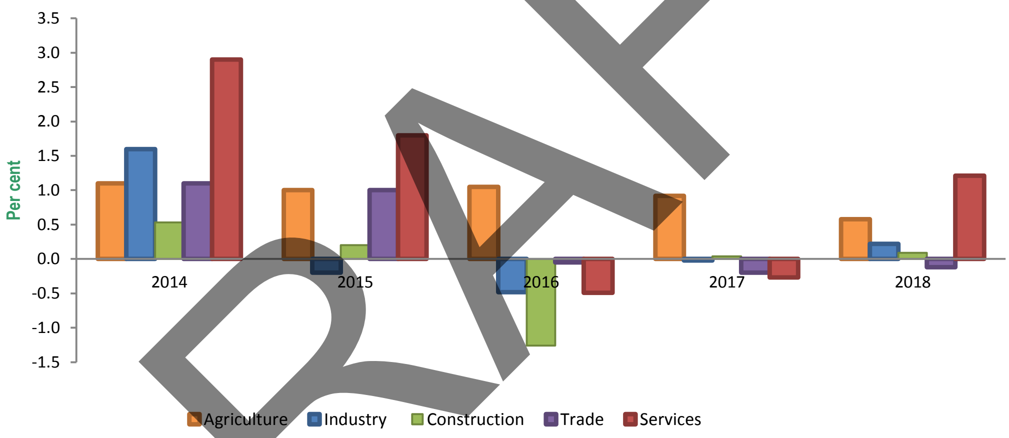
REAL SECTOR DEVELOPMENTS

Figure 6.2: Sectoral Shares in GDP, 2014 - 2018



Source: NBS

Figure 6.3: Growth Rate of Major Sectors of Non-oil GDP, 2014 – 2018 (Per cent)

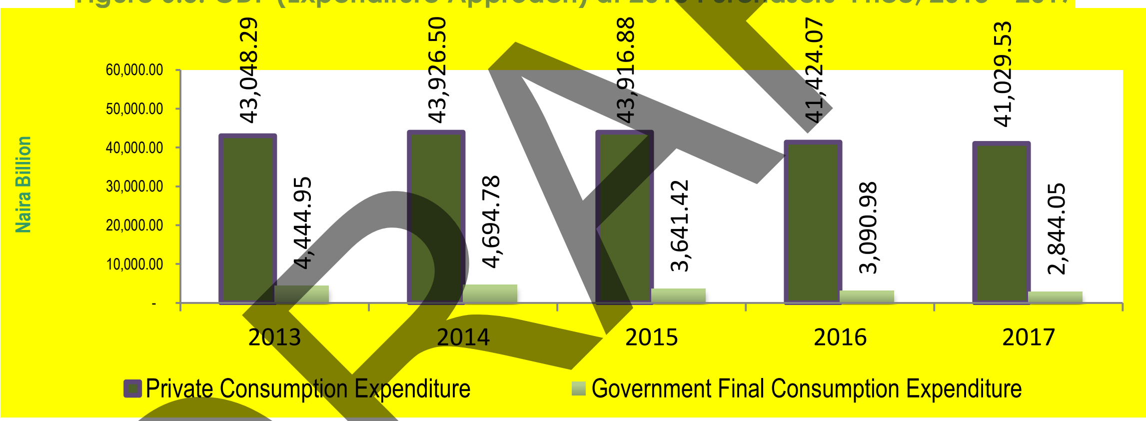


Source: NBS

Figure 6.4: Contributions to Growth Rate of Non-oil GDP, 2013 – 2017 (Per cent)

At ₦69,205.69 billion in 2017, data from the National Bureau of Statistics revealed that real domestic demand, at 2010 purchasers' price (GDP by Expenditure), increased by 0.8 per cent relative to ₦68,652.43 billion in 2016. Private consumption and government final consumption expenditure were ₦41,029.53 billion and ₦2,844.05 billion, respectively, compared with ₦41,424.07 billion and ₦3,641.42 billion, in 2016. Government final consumption expenditure fell by 7.59 per cent, while private consumption also declined by 0.95 per cent in 2017. Net export was ₦15,084.55 billion in 2017, representing an increase of 10.12 per cent above the level of ₦13,698.84 billion in 2016. Real investment (gross fixed capital formation) was ₦9,631.70 billion in the period under review, representing a decrease of 2.98 per cent over the level of ₦9,927.26 billion in the preceding year.

Figure 6.5: GDP (Expenditure Approach) at 2010 Purchasers' Price, 2013 - 2017



Source: NBS

6.2 AGRICULTURE

6.2.1 Policy and Institutional Support

The Federal Government sustained the tempo of activities in the agricultural sector with the main objectives of diversifying the economy, ensuring food security and restoring robust economic growth. Consequently, several policies and programmes were initiated.

The Nigerian Agricultural Quarantine Service (NAQS), during the review period entered an agreement with the Europe-Africa-Caribbean-Pacific Liaison Committee (COLEACP), to resolve the embargo placed on Nigerian export to Europe. The Agreement would ensure the harmonisation of plants and other agricultural produce to promote and regulate sanitary and phytosanitary measures in relation to the import and export of agricultural products.

The Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL) signed a Memorandum of Understanding (MoU) with Syngenta Agrochemical Company, a seed production and crop protection company during the year. The MoU was aimed at supplying quality discounted inputs and modern technology to farmers. The company would also build farmers' capacity on the best use of farm inputs to achieve high yields up to 80.0 per cent.

As part of efforts to empower rural farmers in the country, the British American Tobacco Nigeria Foundation (BATN) unveiled a four-year Strategic Plan (2018-2022) to promote wealth creation activities in the agricultural sector. The sum of ₦700.00 million would be invested to support smallholder farmers, young agric-preneurs and other related government interventions. The Plan was aimed at empowering rural small holder farmers to move from subsistence farming to commercial agriculture, create young agric-preneurs by promoting a commercial mindset towards agriculture; ensure skills development for the adoption of good agronomic practices; and provide market access to promote viable and sustainable businesses.

The Cocoa Research Institute of Nigeria (CRIN) and the University of Ilorin entered into a collaborative agreement to boost cashew production and foreign exchange earnings. The goal of the partnership was to create a viable and sustainable cultivation of cashew through mass production that would improve the cashew value chain.

In addition, the United States African Development Foundation (USADF), entered into a US$10.00 million agreement with Kebbi State Government to promote agribusiness. The Agreement was aimed at providing seed capital and technical assistance to local agribusinesses in the State. The USADF would provide US$1.00 million a year in seed capital funding and technical assistance through the Diamond Development Initiative (DDI) for a period of five years.

The Federal Ministry of Science and Technology through the National Centre for Genetic Resources and Biotechnology (NACGRAB), released 19 new high-yield crop varieties to enhance agricultural production. The 19 crop varieties included: one soybean variety (SC-SL01); five maize hybrids (P4226, P3966, P4063, WE3205 and DKB350); and two maize varieties (AMANA-1 and AMANA – 2). Others included: one sweet potato variety (Solo Gold); three groundnut varieties (SAMNUT 27, SAMNUT 28 and SAMNUT 29); three sorghum varieties (SAMSORG 47, SAMSORG 48 and SAMSORG 49); two cowpea varieties (SAMPEA 18 and SAMPEA 19); and two transgenic hybrid cotton (MAYCO C567 BGII and MAYCO C570 BGII). Also, the Alpha Chicken breed developed by the Federal University of Agriculture Abeokuta (FUNAAB) was approved for registration and release. The new chicken breed possesses performance characteristics such as enhanced body weight, egg weight and survivability surpassing those of existing Nigerian local chickens.

The United Nations Food and Agriculture Organisation (FAO), in collaboration with the World Food Programme (WFP), launched the Livelihood Support Programme (LSP) to supply seeds and fertilizers to Internal Displaced Persons (IDP) farmers in Nothern Nigeria. Consequently, the (FAO) distributed farm input to 100,000 beneficiaries in the North-East and trained 51 agricultural workers under the Farmer Field School (FFS). The training would provide farmers with extension services information, market access and financial capital.

To curb the threat posed by forest degradation in the country, the Nigerian Conservation Foundation (NCF), signed a collaborative agreement with the International Institute of Tropical Agriculture (IITA) on tree planting. The execution of the Agreement would aid the Federal Government's Green Recovery Initiative in managing and replanting felled trees in the mangrove forest, thereby reversing the effects of climate change that had impacted negatively on the environment and human lives.

6.2.2 Agricultural Production

The provisional aggregate index of agricultural production stood at 140.0 (2010=100), indicating an increase of 3.4 per cent, in 2018, compared with

135.4, in 2017. Crops, livestock, fishery and forestry sub-sectors increased by 3.7, 1.6, 1.4 and 3.4 per cent, respectively. The improved performance was driven by Federal Government commitment to economic diversification through agricultural transformation, sustained implementation of the initiatives under the Agricultural Promotion Policy (APP) and the ERGP.

6.2.2.1 Crop Production

Provisional data showed that crop production increased by 3.7 per cent, in 2018, compared with 3.6 per cent, in the preceding year. Staples and 'other crops' grew by 3.6 and 4.7 per cent, respectively, against 4.3 and 2.2 per cent, in the corresponding period of 2017. Further analysis revealed that all crops witnessed increase in output, varying from 1.6 to 13.4 per cent, for wheat and palm produce, respectively. The development was attributable, largely, to the commitment of the Government to diversify the economy and revolutionise the agricultural sector through the ABP, good policies and sustained institutional support during the review period.

Table 6.3: Growth in Major Crop Production (per cent)

Crop	2017	2018	Crop	2017	2018
Wheat	3.4	1.6	Palm produce	8.3	10.9
Sorghum	2.9	2.3	Potatoes	4.1	6.9
Rice	18.7	11.3	Yam	3.3	3.2
Maize	2.6	2.5	Cassava	3.3	2.2
Millet	2.7	2.7	Rubber	7.0	6.6
Soya -Bean	0.8	3.3	Palm Oil	4.3	9.4
Beans	4.2	8.5	Cocoa	4.4	9.5

Source: CBN Staff estimates based on NBS figures

6.2.2.2 Livestock

Estimated index of livestock production, at 130.2 (2010=100), grew by 1.6 per cent in the review period. The rise in the index was attributed to increase in the livestock production, ranging from 0.7 per cent in pork to 2.2 per cent in beef. Also, improved vaccination and good disease control measures, coupled with the sustained efforts of the Federal Government towards livestock management contributed to the growth.

6.2.2.3 Fishery

At 143.5 (2010=100), the index of fish production recorded growth of 1.4 per cent, compared with 1.3 per cent in 2017. Further analysis indicated that fish farming catches from artisanal coastal and brackish water catches, artisanal inland rivers/lakes and industrial (trawling) coastal fish and shrimps recorded growth of 0.7, 2.2 and 2.7 per cent, respectively.

Fish output during the period increased by 0.8 per cent, compared with 2.8 per cent, in 2017. The development was attributed to improved knowledge of fish farming and increased investment in the sub-sector.

6.2.2.4 Forestry

At 133.7 (2010=100), the index of forestry production grew by 3.4 per cent, compared with 3.3 per cent, in 2017. The growth was as a result of the rise in forestry activities due to the growing demand for construction works, and other wood products such as paper, tissues, charcoal and other products. Other reason responsible for the development was the sustained efforts by various stakeholders in creating awareness of the dangers of deforestation without corresponding re-planting of felled trees.

6.2.3 Agricultural Prices

The prices of major agricultural export commodities monitored showed mixed developments in 2018. The aggregate agricultural index, in US dollar terms, stood at 75.8 (2010=100), representing a decrease of 0.8 per cent, below the level in 2017. The decline in the index was attributed to decline in the prices of rubber, groundnut, coffee and palm oil by 21.6, 16.0, 13.0 and 8.0 per cent, respectively. The development was due to excess supply from growing regions on account of favourable weather conditions and low demand from China.

The prices of wheat, cocoa, cotton, soyabean, and sorghum, however, increased by 28.2, 13.0, 9.3, 6.6 and 3.4 per cent, respectively, as a result of increased demand in the international spot market.

In naira terms, the all-commodities price index decreased by 0.7 per cent, to 151.9 (2010=100) in 2018. Rubber, groundnut, coffee and palm oil recorded price decrease of 21.5, 16.0, 12.9 and 7.9 per cent, respectively, while the price of cocoa, cotton, soyabean and sorghum increased by 28.3, 13.1, 9.4, 6.7 and 3.5 per cent, respectively.

Provisional data showed that prices of major selected cash crops rose in the review period compared with their levels in 2017. The price increase of eight out of the thirteen commodities monitored ranged from 2.0 per cent for tea to 33.2 per cent for ginger. The development was attributed largely to flooding and unfavourable weather condition which affected output during the year. The price of palm kernel, cotton, wheat, coffee and cashew, however, decreased by 20.3, 10.8, 10.7, 6.5 and 4.0 per cent, respectively following increased supply in the market.

6.3 INDUSTRY

6.3.1 Industrial Policy and Institutional Support

The Federal Government during the year remain committed to restoring the economy to a sustainable growth-path and building a globally competitive industrial sector. To achieve this, several policies and programmes were put in place to accelerate economic growth.

To improve stable supply of electricity, the Kano Hydro and Energy Development Company (KHEDCO) was issued a Water Use Licence, for the construction of two hydro power plants. The Plants comprised 10MW Tiga Hydroelectric Power Plant and 6MW Challawa Hydroelectric Power Plant located at Bebeji and Karaye, Kano State. When completed, the Project would increase energy generation capacity in the country.

The Corporate Affairs Commission (CAC) introduced Company Registration Portal (CPR) during the year to fast track company registration. With the introduction of the CPR, business registration would be concluded within 48 hours, thereby improving the ease of doing business in the country.

To further increase 'Made in Nigeria Export', the Federal Ministry of Industry, Trade and Investment and the Nigeria Export Processing Zone Authority initiated the Project MINE (Made in Nigeria for Exports). The Initiative was aimed at making the country the manufacturing hub in the sub-Saharan Africa, serving both regional and global markets. The Project, which would be private sector driven, focused on development of new and upgrading of existing Special Economic Zones (SEZ). It would create 1.5 million new manufacturing jobs and increase manufacturing exports to at least US$30.00 billion by 2025, as well as, create an enabling environment for SEZ businesses by ensuring easy access to government approvals. The pilot phase of the Initiative would commence in Abia, Katsina and Lagos to demonstrate proof of concept and provide models for future SEZ development in the country.

The Nigerian National Petroleum Corporation (NNPC) signed a MoU with the Kogi State Government for the development of ethanol fuel. The Project, an integrated feedstock plantation and processing plants complex, comprised: an ethanol processing plant with capacity to produce 84 million litres of bio-fuel per year; a cane mill; and a raw and refined sugar plant with annual output of 126,000 tonnes. Others included: Bagasse Co-generation Plant that would generate 64 megawatts of power; as well as, a Carbon Dioxide Recovery and Bottling Plant with capacity of 2,000 tonnes per year. The Project would be located in Kabba/Bunu, Kogi State.

The Ministry of Industry, Trade and Investment and Shandong Ruyi Group, China's largest textile manufacturer, signed a MoU for the development of cotton value chain in Nigeria. The Agreement, worth US$2.00 billion, included the aggregation and off-take of cotton from farmers, development of cotton value chain to textile manufacturing, and garment production. The Investment would yield at least 300 million metres of African print, which would serve both local and international markets. The Project would be concentrated in Katsina, Kano, Abia and Lagos states

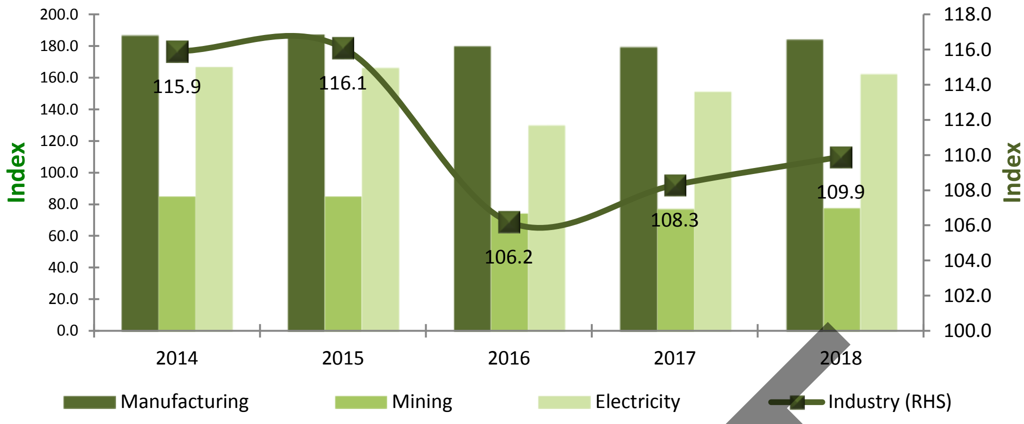
The Government during the year launched a cluster project to address the problem of work space for micro, small and medium enterprises (MSMEs). The Project, would convert six out of twenty three Industrial Development Centres (IDCs) in the country to industrial clusters (ICs), at a cost of over ₦67.00 billion. The six viable cluster models identified were in the areas of agriculture (grains, spices and oil palm) and manufacturing (furniture, fast moving consumer goods (FMCG), and petrochemicals). The states identified for the Project include, Lagos (FMCG), Imo (oil palm), Sokoto (spices), Borno (grains), and Rivers (petrochemical).

The Federal Government and Volkswagen Group signed a MoU aimed at making the country "automotive hub" of West Africa. The Agreement included plan to develop short, medium and long-term approaches targeting growth in car manufacturing in Nigeria. The Agreement also included building new plants in the country; developing a training academy, in conjunction with the German government; and developing a comprehensive Volkswagen vehicle and service network in the country subject to commercial viability. The Nigerian Government, on the other hand, pledged to "accelerate the passage of the Nigerian Automotive Policy Bill.

6.3.2 Industrial Production

The industrial production index at 109.9 (2010=100), rose by 1.5 per cent in 2018, above the level in 2017. The improved performance over the preceding year was as a result of increased activities in all the sub-sectors, particularly, electricity consumption, crude oil production and manufacturing output. The indices of electricity, manufacturing and mining sub-sectors rose by, 7.3, 2.1 and 0.7 per cent, respectively.

Figure 6.6: Index of Industrial Production, 2014 – 2018 (2010=100)

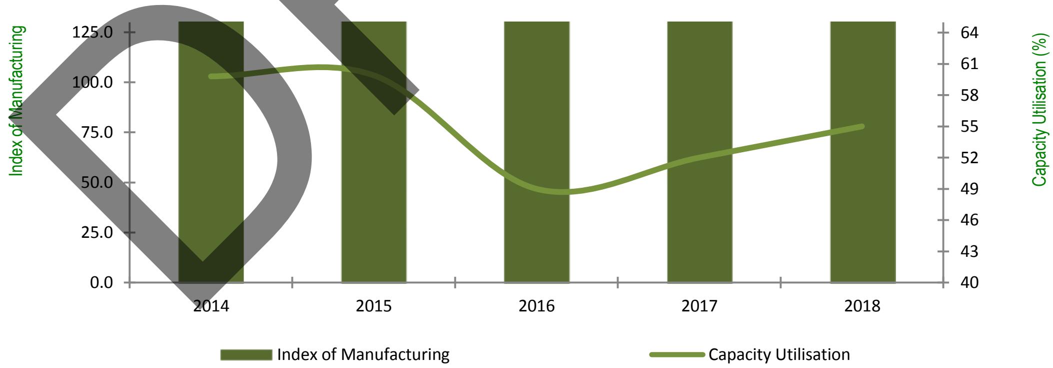


Source: Computed by Staff from NBS Data

6.3.2.1 Manufacturing

At 183.4 (2010=100), the index of manufacturing output, showed an increase of 2.1 per cent, compared with the level in 2017. Similarly, the average manufacturing capacity utilisation in 2018 rose by 3.0 percentage points to 55.0 per cent. The development was attributed to enhanced access to foreign exchange, increased demand as shown by continued improvement in new orders, as well as, moderating inflationary pressure.

Figure 6.7: Index of Manufacturing Production and Capacity Utilisation, 2014 - 2018

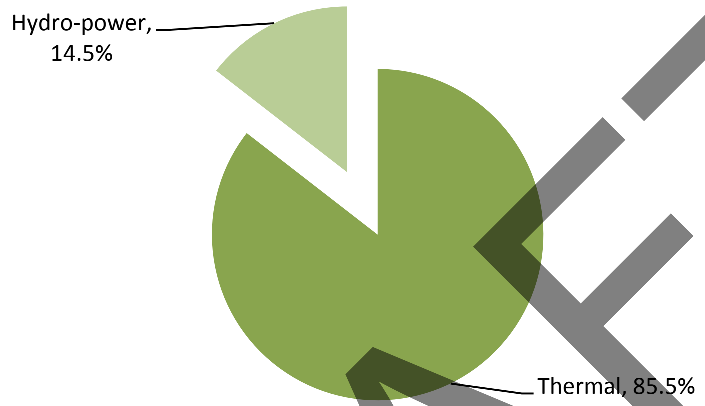


Source: Computed by Staff from NBS and Manufacturers Association of Nigeria Data

6.3.2.2 Electricity Generation

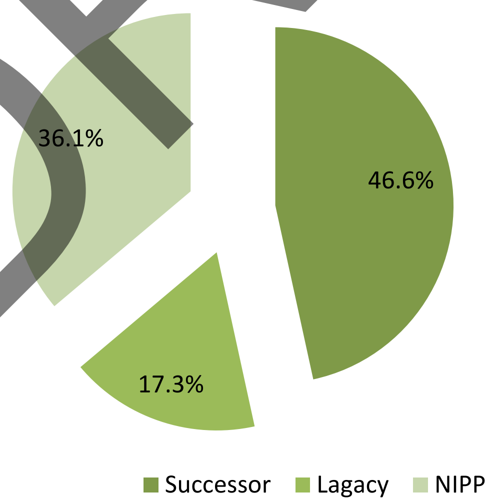
Total installed electricity generation capacity, stood at 13,502.8MW in 2018, compared with 13,363MW in 2017, indicating a 1.1 per cent increase. The marginal increase was due to the installation of new generating plants and expansion in the capacity of the existing ones. A disaggregation of the installed capacity showed that thermal power constituted 85.5 per cent of generation capacity, while hydro-power accounted for the balance. Analysis by holding showed that the Successor Companies accounted for 46.6 per cent; National Integrated Power Plant, 36.1 per cent and Legacy Independent Power Plant, 17.3 per cent.

Figure 6.8: Nigeria's Power System: Composition in 2018 by Source (Per cent)



Sources: The Federal Ministry of Works, Power & Housing and the Nigeria Electricity Regulatory Commission

Figure 6.9: Nigeria's Power System: Composition in 2018 by Holding (Per cent)

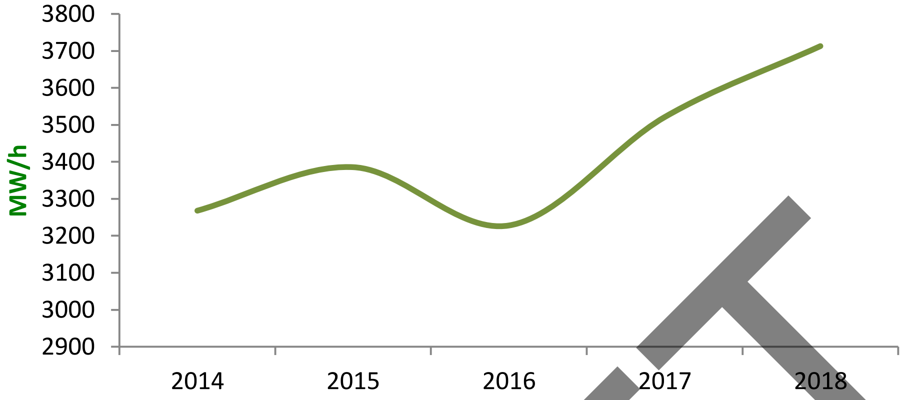


Sources: The Federal Ministry of Works, Power & Housing and the Nigeria Electricity Regulatory Commission

The average electricity generation in 2018, estimated at 3,713.2 MW/h, showed an increase of 5.1 per cent, above the level in the preceding year.

The increase in power generation was attributed to improved gas supply to the thermal plants.

Figure 6.10: Electricity Power Generation, 2014 – 2018



Source: The Ministry of Power, Works & Housing and Nigerian Electricity Regulatory Commission

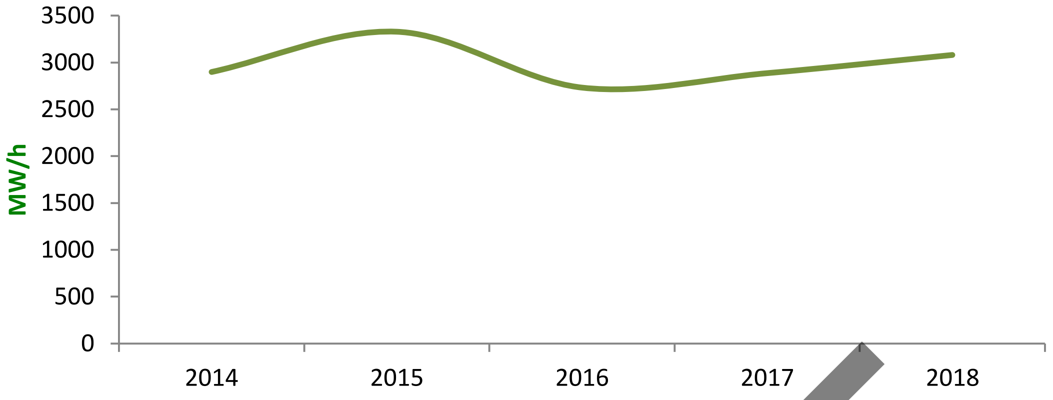
6.3.2.3 Energy Consumption

The estimated index of energy consumption for 2016 stood at 50.6 (2010=100), representing a fall of 1.0 per cent below the level in 2015. In absolute terms, estimated aggregate energy consumed in 2016 was 84,182.53 million tonnes of coal equivalent (tce), compared with 100,696.53 million tce in the preceding year. The decline in energy consumption during the review period was attributed to decrease in the consumption of gas and petroleum products due to deregulation in the downstream sector.

6.3.2.3.1 Electricity Consumption

The estimated average electricity consumption in 2018 was 3,080.2 MW/h, showing an increase of 6.7 per cent above the level in the preceding year. This was attributed to the improvement in transmission infrastructure. Energy loss was lower at 17.3 per cent, compared with 18.2 per cent in 2017.

Figure 6.11: Electricity Consumption, 2014 - 2018



Source: The Federal Ministry of Works, Power & Housing and Nigerian Electricity Regulatory Commission

6.3.2.3.2 Hydro-power Consumption

At 3,170,000.0 tons of coal equivalent (tce), the estimated total hydro-power consumption fell by 18.1 per cent, below the level in 2017. The development was attributed to the decline in output from all the hydro-power plants with generation from Shiroro, Jebba and Kainji falling by 26.4, 21.1 and 8.0 per cent, respectively.

6.3.3 The Extractive Industry

6.3.3.1 Oil & Gas Policy and Institutional Support

The Nigerian National Petroleum Corporation (NNPC) signed two separate Memoranda of Understanding (MoU) with the OBAX-COMPLANT Consortium and the CAPEGATE-NANNING Consortium aimed at supporting the development of biofuel complexes across the country. The Contract focused on promoting clean, alternative and renewable energy, especially automotive biofuels in the country.

In a similar development, the Corporation also signed a MoU with the China National Offshore Oil Corporation (CNOOC) to optimise Nigeria's oilfield services, boost research and development in the oil and gas industry, as well as advance renewable energy and biofuels production in the country. The Agreement would complement Government effort in meeting growing energy needs of the country. It would also provide collaboration on requisite expertise for the advancement of oilfield services and its operatorship in the country and beyond.

The NNPC also signed a contractual agreement with FIRST E&P and Schlumberger for the development of Anyalu and Madu oilfields in the review period. The Schlumberger under the Agreement would provide US$724.14 million of the total project cost of US$1.08 billion while the balance would be financed through the project cash flow. The Contract would increase crude oil and gas production reserves and monetisation of the nation's enormous gas resources in a competitive manner. In addition, it would generate US$5.60 billion taxes and royalties and US$1.32 billion net cash flows after Schlumberger's cost recovery and compensation.

The Bank of Industry (BOI) and the Export-Import Bank of China (CEXIM) signed a MoU on a US$500 million financing support towards the establishment of modular refineries and flare gas recovery programmes, including financing the purchase of equipment and machinery. The Programme would create over 100,000 jobs in Nigeria's oil and gas sector.

a. Crude Oil Production, Refinery Utilisation, Petroleum Products and Prices

i. Crude Oil Production

Nigeria's aggregate crude oil production, including condensates and natural gas liquids, averaged 1.88 million barrels per day (mbd), or 686.20 million barrels (mb) in 2018, compared with 1.72 mbd or 627.80 mb in the preceding year, indicating to a 9.3 per cent increase. The increase in output was attributed to gains from sustained peace deal between the Federal Government and stakeholders in the Niger Delta region; the security measures put in place to forestall production disruption and losses through pipeline vandalism; as well as, the repairs and reopening of major oil installations in the oil producing region.

ii. Refinery Utilisation

The estimated average capacity utilisation of the country's three (3) refineries stood at 22.9 per cent in 2018 from 20.9 per cent in 2017. A breakdown showed that the average capacity utilisation of the Kaduna Refining and

Petrochemical Company (KRPC), the Warri Refining and Petrochemical Company (WRPC), and the Port Harcourt Refining Company (PHRC) was 27.6, 10.4, and 24.7 per cent, respectively.

Aggregate production of petroleum products from the refineries was estimated at 3.8 million metric tonnes in 2018, compared with 3.7 million metric tonnes in 2017, representing to a 2.7 per cent increase. The development was attributed to the improved efficiency of the refineries which contributed to the increase in refined products following drive by government to ramp up production and rely less on imported refined products.

Analysis of products by refinery showed that the WRPC produced 0.38 million metric tonnes, while the PHRC and the KRPC produced 1.96 and 0.53 million metric tonnes, respectively. Of the total, Premium Motor Spirit (PMS) accounted for the largest share at 31.3 per cent, while the shares of Automotive Gas Oil (AGO), fuel oil, Dual Purpose Kerosene (DPK), fuel and losses, Liquefied Petroleum Gas (LPG), and Asphalt were 23.7, 22.3, 14.6, 5.2, 2.8 and 0.1 per cent, respectively.

iii. Petroleum Products Consumption

The volume of petroleum products consumed in 2018 was estimated at 16.91 billion litres. This represented an increase of 6.6 per cent, compared with 15.87 billion litres in 2017. A breakdown by product showed that PMS had the highest consumption, with 13.3 billion litres (83.9%); AGO, 1.29 billion litres (8.2%); DPK, 0.65 billion litres (4.1%); 'Others', 0.31 billion litres (2.0%); and LPFO, 0.30 billion litres (1.9%).

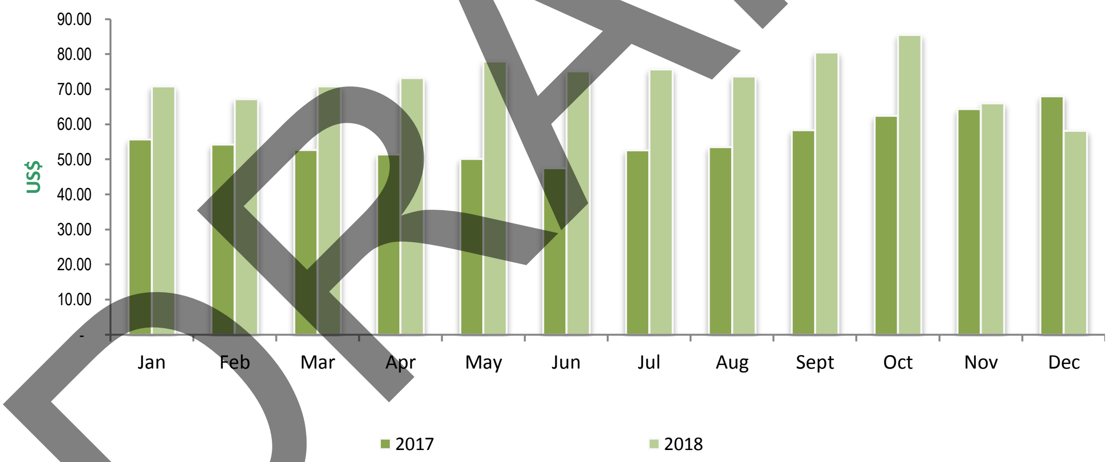
iv. Prices

The average spot price of Nigeria's reference crude, the Bonny Light (37^0API), was US$72.53 per barrel in 2018, compared with the preceding year's average of US$54.90 per barrel, an increase of 32.1 per cent. The West Texas Intermediate (WTI) recorded an average price of US$57.81 per barrel in 2018, representing an increase of 14.7 per cent, relative to the level in the preceding year. Also, the UK Brent and Forcados crude prices followed similar trends increasing to US$71.17 and US$72.57 per barrel, respectively, compared with the levels in the preceding year. The average price of the OPEC basket of 15 crude streams also rose by 32.8 per cent to US$69.61 per barrel in 2018.

The increase in oil price during the year was influenced by tension in the Korean peninsula; U.S. withdrawal from the Iran deal; and agreement by OPEC and its Russia-led allies to slash production by 1.2 million barrels per day, among others.

A trend analysis indicated that average crude oil price, was US$70.83 per barrel in January 2018. It, however, fell to US$67.20 per barrel in February 2018, but remained above US$70 per barrel till October 2018. Thereafter, it ended the year at US$58.16 per barrel.

Figure 6.12: Bonny Light Monthly Prices in 2017 and 2018 (US$)



Source: REUTERS

(b) Gas

i. Policy and Institutional Support

In furtherance of the pursuit of national sufficiency in energy, the NNPC commenced the Seven Critical Gas Development Projects tagged 7CGDP. The Project would deliver about 3.4 billion standard cubic feet of gas per day (bscfd), hence, enabling the attainment of the target of generating 15 gigawatts (GW) of electricity by 2020. It would close the gap between demand and supply in the domestic gas market. The 7CGDP Project included: the development of the 4.3 trillion cubic feet (TCF) Assa North/Ohaji South field; development of the 6.4 TCF Unitised Gas fields (Samabri-Biseni, Akri-Oguta, Ubie-Oshi and Afuo-Ogbainbri); the development of 7TCF NPDC's OML 26, 30 and 42. Others included: 2.2 TCF Shell Petroleum Development Company (SPDC) JV Gas Supply to Brass Fertilizer Company; cluster development of 5 TCF OML 13 to facilitate the expansion of Seven Energy Uquo Gas Plant; as well as, the cluster development of 10 TCF Okpokunou/Tuomo West (OML 35& 62).

The Nigerian National Petroleum Corporation (NNPC) launched a Virtual Gas Pipeline Network for power generation in collaboration with the private sector. The Project was intended to leverage the growing proven gas reserves of the country through the installation of Mini-LNG plants with capacity to supply about 84 million standard cubic feet of gas per day (mscf/d). The gas would be transported using customised cryogenic tankers to areas not easily accessible through pipelines. In addition, it would supply gas to manufacturing and housing sectors at affordable prices.

The Federal Government during the year unveiled the National Gas Flaring Commercialisation Programme (NGCP) and approved the Flare Gas (prevention of waste and pollution) Regulations 2018. The Programme sought to end gas flaring, thereby reducing carbon emission and minimising the effect of climate change. The NGCP would seek investors' collaboration as off-takers for currently flared gas by joint venture companies, an arrangement that would save the country about US$800.00 million losses annually.

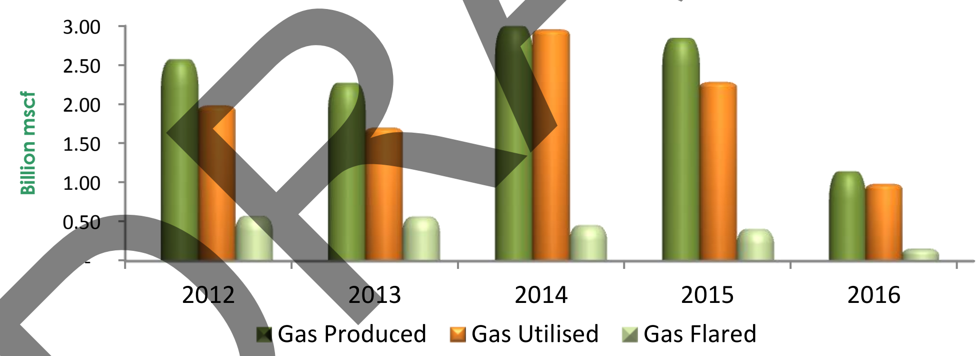
As part of ongoing efforts by the government to boost gas production and improve gas infrastructures, the Nigeria LNG signed a MoU with B7 JV Consortium and the SCD JV Consortium. The Agreement aimed to increase in the country's gas production from 22 million metric tonnes to 30 million metric tonnes annually.

The Nigerian National Petroleum Corporation (NNPC) signed contracts under a 100 per cent contractor financing model with a consortium of indigenous and Chinese companies for the engineering, procurement, construction, commissioning and financing for Lots 1&3 of the 40 inch x 614km Ajaokuta - Kaduna - Kano gas pipeline and stations. The gas pipeline was designed to enable the industrialisation of the Eastern and Northern parts of Nigeria, which would connect East, West and North. The participation of indigenous companies was consistent with the local content policy.

i. Gas Production and Utilisation

The total estimated volume of gas produced in 2018 was 1,147.20 million standard cubic feet (mscf), representing an increase of 17.1 per cent above the level in 2017. Of the total gas produced, 86.3 per cent was utilised, while 13.7 per cent was flared. Of the volume utilised, 39.6 per cent was sold to industries, including power, cement and steel companies; and 28.3 per cent was re-injected. Gas sold to the Nigeria Liquefied Natural Gas (NLNG) Company, utilised as fuel, and converted to natural gas liquid, accounted for 21.8, 8.5, and 1.8 per cent, respectively.

Figure 6.13: Gas Production and Utilisation, 2014 – 2018 (Billion mscf)



Source: NNPC

6.3.3.2 Solid Minerals

(a) Policy and Institutional Support

The Federal Government in conjunction with the China Geological Survey (CGS) commenced the implementation of the Low Density Geochemical Mapping Project. The Project focused on the low-density geochemical mapping and the National-Geo-Information System; and geo-data sharing, which were essential for investment in the mining sector and for environmental sustainability.

Furthermore, the Government awarded a mining contract worth ₦15.00 billion (over US$41.00 million) to five (5) exploration firms to diversify the economy from oil. The Project was in line with the Ministry of Mines and Steel Development's Integrated Exploration Programme for the exploration of key minerals like gold, lead, zinc, iron ore and rare earth metals. The Contract offered the mining companies 3-5 years tax holiday, duty free on imported equipment, as well as, full business ownership and easy profit repatriation.

(b) Solid Minerals Production

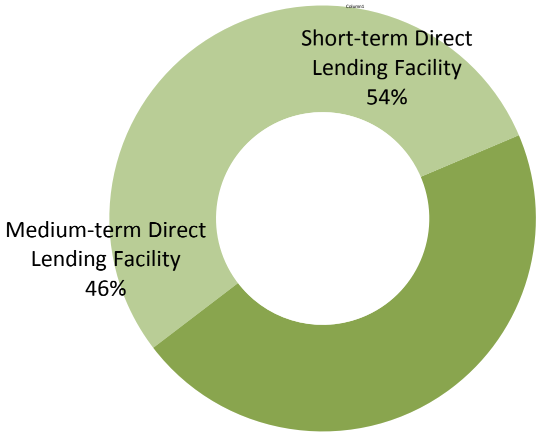
Aggregate production of solid minerals increased in 2018, relative to the level in the preceding year. Provisional data showed that aggregate output rose from 43.94 million tonnes in 2017 to 46.53 million tonnes in 2018, an increase of 5.9 per cent. The development was attributed to the increase in production of principal minerals, such as columbite ore, limestone, iron ore, shale and marble aggregates.

6.3.4 Industrial Financing

6.3.4.1 The Nigeria Export-Import Bank (NEXIM)

The total funding support provided to the non-oil export sector, under various facilities of the NEXIM in 2018, was estimated at ₦131.80 million for 6 projects, compared with ₦102.30 million disbursed in 2017 for 5 projects, representing an increase of 28.8 per cent. The development was attributed to the completion of the restructuring of the Bank's funding model. A breakdown of the disbursement by facility showed that 54.0 and 46.0 per cent were disbursed under short-term and medium-term lending facilities, respectively.

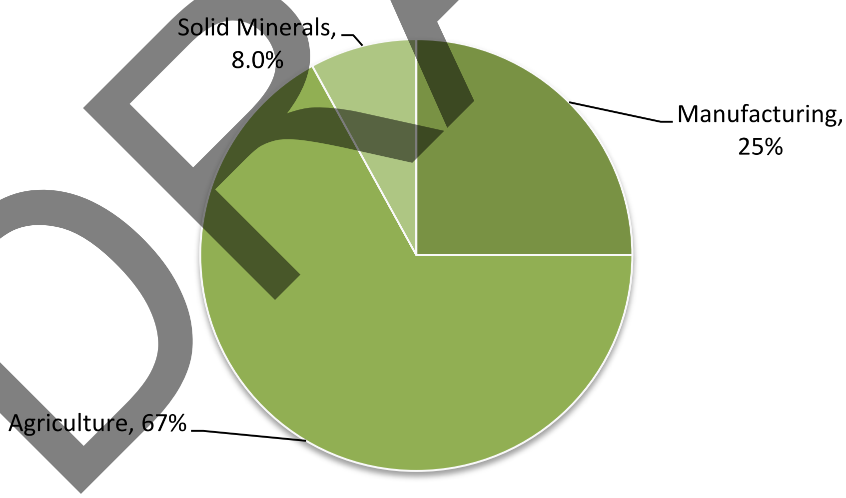
Figure 6.14: Summary of NEXIM Disbursements by Facility, 2018 (per cent)



Source: NEXIM

A sectoral analysis of NEXIM disbursements showed that the agricultural sector received ₦88.80 million, representing 67.0 per cent of the total. This was followed by the manufacturing sector, with ₦33.0 million or 25.0 per cent; and solid minerals, ₦10.40 million or 8.0 per cent of the total.

Figure 6.15: Summary of NEXIM Disbursements by Sector, 2018 (per cent)



Source: NEXIM

6.3.4.2 The Bank of Industry

The total credit disbursed to the industrial sector under the various BOI facilities at end-June 2018 fell by 8.1 per cent, to ₦113.54 billion, compared with ₦123.57 billion in the corresponding period of 2017.

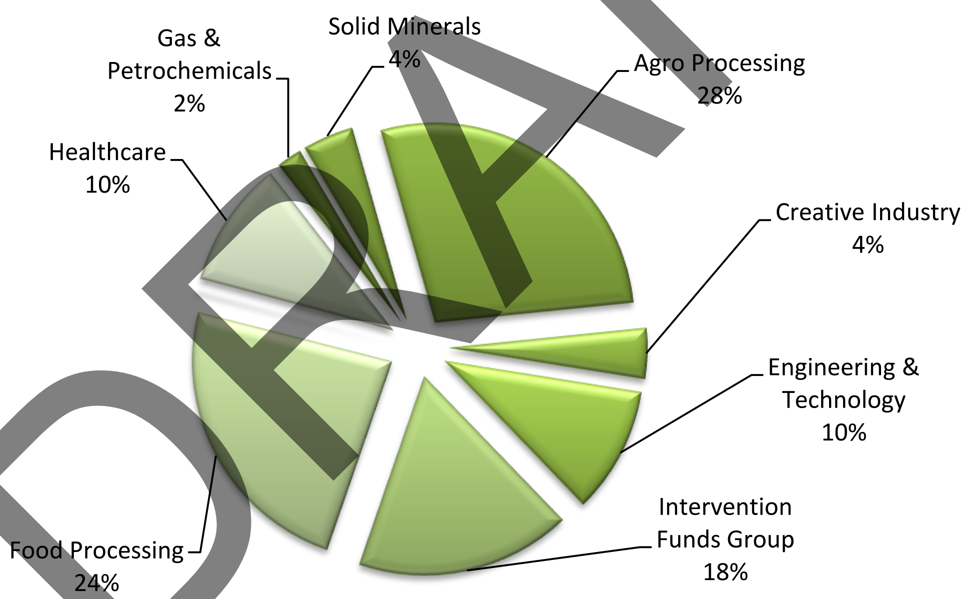
6

REAL SECTOR DEVELOPMENTS

A sectoral breakdown of the disbursements showed that the agro-processing sector received ₦30.25 billion, representing 26.6 per cent of the total, followed by the food processing sub-sector, with ₦25.76 billion or 23.0 per cent. The sum of ₦18.74 billion or 16.5 per cent was disbursed through intervention funds, while engineering and technology, health care, solid minerals and metals and creativity industry received ₦11.80 billion or 10.4 per cent, ₦11.37 billion or 10.0 per cent, ₦4.25 billion or 3.7 per cent and ₦4.05 billion or 3.6 per cent, respectively, of the total disbursement.

Disbursement on the basis of enterprises showed that, large enterprises received ₦98.30 billion, representing 86.6 per cent, while small and medium enterprises accessed ₦15.2 billion, indicating 13.4 per cent.

Figure 6.16: Summary of BOI Disbursements by Sector, 2017 (per cent)



Source: BOI

6.4 TRANSPORT AND COMMUNICATIONS

6.4.1 Road Transport

The Federal Government, during the review period, established the Presidential Infrastructure Development Fund (PIDF). The PIDF, which would be managed by the Nigerian Sovereign Investment Authority (NSIA), has an initial seed fund of US$650 million. The Fund would be invested in critical road and power projects across the country.

6.4.2 Aviation Services

6.4.2.1 Policy and Airport Developments

To reduce the tax burden and improve the ease of doing business, the Federal Government during the review period, issued an Executive Order (Value Added Tax Act Modification Order) stopping the levy of VAT on all forms of shared transportation. This would stimulate, particularly domestic air transportation and reduce fares.

The Federal Government also inaugurated the new international terminals in Abuja and Port-Harcourt airports. The airport terminals were designed to improve the quality of air transport experienced by passengers in the country. They were built with a US$500.00 million facility secured from the China EXIM Bank.

6.4.2.2 Domestic Operations

At end-June 2018, a total of 5,990,411 passengers were airlifted by domestic airlines. This represented a 37.2 per cent increase above the 4,365,140 passengers airlifted in the corresponding period of 2017. Similarly, total aircraft movement was 116,400 at end-June, 2018, representing an increase of 30.4 per cent above the 89,268 in the corresponding period of 2017.

6.4.1.3 International Operations

The number of passengers airlifted by airlines on international routes at end-June, 2018, increased by 9.8 per cent to 2,048,299 compared with 1,864,775 in 2017. Aircraft movement at the same period reduced by 6.3 per cent to 20,894 at end-June 2018, compared with 22,309 in the corresponding period.

Cargo movement at designated airports declined by 50.2 per cent to 83.1 million kg below 167 million kg in 2017. Mail movement also declined by 40.5 per cent to 17.6 million kg at end-June, 2018, compared with 29.6 million kg in 2017.

6.4.2 Railway Services

During the review period, the Nigeria Railway Corporation (NRC) commissioned ten (10) additional Standard Gauge Coaches on the Abuja-

Kaduna rail service. Also, seven (7) similar coaches were delivered at Agbor for the Itakpe-Ajaokuta-Warri line with test run carried out in November 2018.

In addition, the Abuja-Light Rail project was commissioned during the year. The Project was financed by loan from China EXIM Bank at the cost of US$500.00 million. It would reduce traffic congestion and improve transportation of commuters.

The Federal Government signed an Interim Phase Agreement with General Electric (GE) - led Consortium for the concessioning of the Narrow Gauge line. Transnet International Holdings, however, took over from GE as the lead consortium partner in a US$2.00 billion Nigerian Narrow-Gauge Railway Concession. Transnet's Consortium partners in the concession are APM Terminals, a Dutch-based global port, terminal and intermodal inland services provider, and SinoHydro, a Chinese state-owned hydropower engineering and construction business. The concession would fund, rehabilitate and operate Nigeria's western and eastern narrow-gauge lines, connecting Lagos in the South-West to Kano in the North-West and Port Harcourt in the South-South to Maiduguri in the North-East.

At end-June 2018, a total of 1,478,634 passengers and 165,566 tonnes of freight were moved by trains operated by the Nigeria Railway Corporation compared with 2,593,744 passengers and 141,186 tonnes of freight moved during the same period in 2017.

6.4.3 Maritime Services

The Federal Government commenced the construction of Lekki Deep Sea Port in Lagos during the review year. The Port, located at the center of the Lagos Free Trade Zone, would feature three container berths, one dry bulk berth and three liquid berths, which would handle up to 2.7 million Twenty Foot Equivalent Units (TEUs) annually. The Port channel would be developed to a depth of about 16 meters to accommodate larger ships. The Project worth US$1.50 billion would be completed in 2020.

The Maritime University, Okerenkoko, Delta State commenced academic activities. The University was granted approval in early 2018 by the National

Universities Commission (NUC) to run undergraduate degree programmes in three faculties namely: Transport; Engineering and Environmental Management, with specialisations in Marine Engineering, Marine Economics, Climate Change and Fisheries. To enhance the security on the nation's water way, the Federal Executive Council (FEC) approved US$23.00 million (₦7.14 billion) for the protection of six sections of the country's coastal ways by the Nigerian Maritime Administration and Safety Agency (NIMASA).

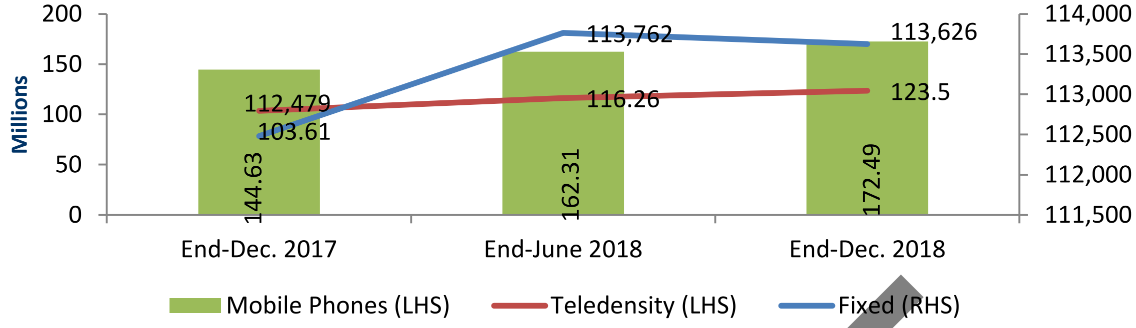
Data from the Nigerian Ports Authority (NPA) showed that at end-June, 2018, a total of 9,289 ocean going vessels berthed at Nigerian ports, compared with 1,540 in 2017. Cargo throughput stood at 96,603,396.94 metric tonnes in the same period, compared with 73,628,546.62 metric tonnes in 2017, representing an increase of 31.2 per cent.

6.4.4 Communication

Digital mobile lines continued to drive growth in the communications sector during the review period. Data from the Nigerian Communications Commission (NCC) showed that the number of active telephone lines was 172.9 million at end-December 2018, compared with 145.1 million at end-December 2017. This represented an increase of 19.2 per cent. Teledensity increased to 123.48 lines per 100 inhabitants at end-December 2018, compared with 103.61 lines per 100 inhabitants at end-December 2017. Teledensity in Nigeria remained above the International Telecommunication Union (ITU) minimum standard of 1:100. In addition, the number of internet users increased to 112.1 million at end-December 2018, compared with 98.7 million at end-December 2017.

Figure 70

Active Lines and Teledensity



Source: Nigerian Communication Commission (NCC)

The year-on-year headline inflation stood at 11.44 per cent at end-December 2018, indicating a decline of 3.99 percentage points below the level at end-December 2017.

Further analysis indicated that the wireless Global System for Mobile (GSM) communication segment accounted for 172.5 million lines in the telecoms sector, representing 99.8 per cent of the total 172.9 million connected lines at end-December 2018. Mobile Telecommunications Network (MTN) had the largest share of the market with 67.1 million subscribers, followed by Globacom with 45.3 million subscribers, Airtel with 44.2 million subscribers and 9mobile, 15.9 million subscribers.

In a related development, the 2018 broadband internet penetration target of 30 per cent for Nigeria was also achieved with 31.48 per cent broadband penetration at end-December 2018, compared with 19.86 per cent at end-December 2017. The broadband penetration met NCC National Broadband Plan target minimum of 30 per cent penetration between 2013 and 2018.

6.5 CONSUMER PRICES

The year-on-year headline inflation remained above the CBN's single-digit benchmark. Inflation maintained a seven-month consistent decline ending up to July 2018, after which a sustained uptick dominated the remaining months of the year. Data obtained from the NBS indicated that the all-items composite Consumer Price Index (CPI) stood at 274.6 (November 2009=100) at end-December 2018, compared with 246.4 at end-December 2017. The year-on-year headline inflation stood at 11.44 per cent at end-December

2018, indicating a decline of 3.99 percentage points, below the level at end-December 2017.

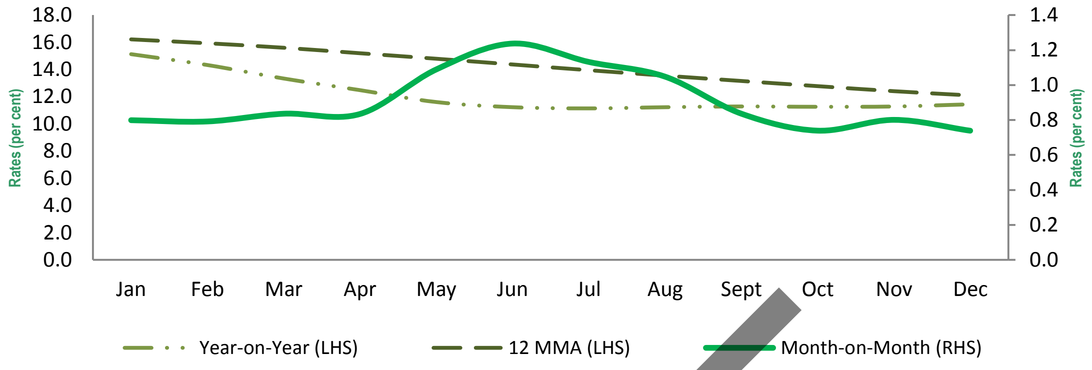
Further analysis indicated that inflation decelerated consistently from 15.13 per cent at end-January to 11.14 per cent at end-July 2018. The trend, however, reversed at end-August 2018 to 11.23 per cent, accelerating consistently to 11.28 at end-September and 11.44 at end-December 2018. The persistent decline in inflationary trend during the first seven months of the year was attributed to declining prices in the food and core components of the consumer price index. The increase in aggregate prices, however, noticed in the remaining months of 2018, was attributed to upward inflationary pressure in the food component of the basket.

The 12-month moving average headline inflation was 12.10 per cent at end-December 2018, compared with the 16.50 per cent at end-December 2017.

Core inflation (all-items, less farm produce), decreased steadily from 12.10 per cent at end-January to 9.8 per cent at end-September and remain unchanged at end-December 2018. The persistent decline in core inflation was attributed partly to the effect of sustained interventions by the CBN in the foreign exchange market which moderated the exchange rate of the naira, thereby, reducing the pass-through effect on domestic prices.

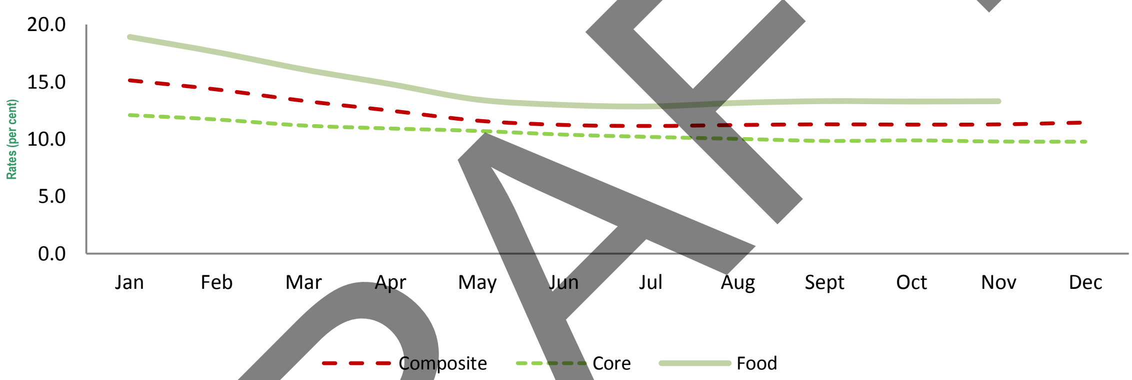
Food inflation maintained a downward trend from 18.92 per cent at end-January, for seven consecutive months of the year, to 12.85 per cent at end-July. The declining trend was reversed at end-August 2018 when food inflation rose to 13.16 per cent and maintained the upward trend to 13.56 per cent at end-December 2018. The development was attributed largely to shortages in the supply of food items, resulting from the incessant herdsmen/farmers' crises. This was exacerbated by the menace of flooding that occurred in the third quarter, affecting 12 states and destroying various crops such as rice, yam, cassava, tomatoes and sorghum.

Figure 6.19: Trends in Inflation, 2018
(Year-on-year, 12-Month Moving Average and Month-on-Month)



Source: NBS

Figure 6.20: Trends in Inflation, 2018
(Composite, Core and Food)



Source: NBS

Table 6.4: Headline Inflation (Year -on-Year) (Per cent)

	2014	2015	2016	2017	2018
January	8.0	8.2	9.6	**18.7**	**15.13**
February	7.7	8.4	11.4	**17.8**	**14.33**
March	7.8	8.5	12.8	**17.3**	**13.34**
April	7.9	8.7	13.7	**17.2**	**12.48**
May	8.0	9.0	15.6	**16.3**	**11.61**
June	8.2	9.2	16.5	**16.1**	**11.23**
July	8.3	9.2	17.1	**16.1**	**11.14**
August	8.5	9.3	17.6	**16.0**	**11.23**
September	8.3	9.4	17.9	**16.0**	**11.28**
October	8.1	9.3	18.3	**15.9**	**11.26**
November	7.9	9.4	18.5	**15.9**	**11.28**
December	8.0	9.6	18.5	**15.4**	**11.44**

Source: NBS

The urban headline inflation (year-on-year) decreased significantly to 11.73 per cent at end-December 2018, from 15.56 per cent at end-December 2017. Urban core also decreased to 10.09 per cent from 13.0 per cent at end-December 2017. Similarly, urban food inflation fell to 14.19 per cent at end-December 2018, from 19.89 per cent at end-December 2017.

Rural inflation (year-on-year) decreased to 11.18 per cent at end-December 2018, from 14.76 per cent at end-December 2017. Rural core inflation also decreased to 9.50 per cent at end-December 2018, compared with 11.33 per cent in December 2017. Similarly, rural food inflation decreased to 13.02 per cent at end-December 2018, compared with 18.11 per cent at end-December 2017.

6.6 THE SOCIAL SECTOR

6.6.1 Employment and Job Creation

The data from the National Bureau of Statistics showed that the economically active or working age population (15 – 64 years of age) increased from 112.12 million in Q4 2017 to 115.49 million in Q3 2018, representing an increase of 3.0 per cent. The labour force population, also increased from 86.54 million in Q4 2017 to 90.47 million in Q3 2018, representing a 4.5 per cent increase. The unemployment rate increased from 20.4 per cent in Q4 2017 to 23.1 per cent in Q3 2018. The Urban and rural unemployment were 23.9 and 21.2 per cent in Q3 2018, respectively.

Table 6.5 Labour Statistics, 2013-2017

	2014	2015	2016	2017	2018
Total Population(Million)	178.5	184.2	190.1	196.2	202.5
Labour Force (Million)	72.9	76.9	81.2	86.54	90.47*
Unemployment Rate (%)	7.8	10.4	14.2	20.4	23.1*

Source: NBS
*as at Q3, 2018

6.6.2 Education

During the review period, the Federal Government approved ₦2.00 billion for the establishment of the Nigerian Army University, Biu, Borno State. The University would be tailored to meet the needs of the military and develop the science and technology base of the nation. The institution would enhance the capacity of the military to deal with insurgency and numerous security challenges. Similarly, the Federal Government approved the construction of US$50.00 million (₦18.00 billion) Transportation University to be located in Daura, Katsina State.

The Federal Government flagged off a National School Enrolment Drive Campaign to improve primary school enrolment and completion rates. Consequently, the Federal Government established the Community-Based Early Childcare Centre (CBECC) in 16 states to reduce the incidences of out-of-school children. To effectively accomplish the CBECC, Government constructed 85 public primary schools across the country to increase the carrying capacity of the schools. In addition, a guideline for enhancing teaching proficiency was developed, and a total of 31,520 teachers across 27 states were trained.

The United Nations Children's Fund (UNICEF) expanded access to quality education for out-of-school-children in four states in the northern part of the country under its Cash Transfer Programme (CTP). CTP was a direct transfer payments to victims of humanitarian crises to assist them in situations where opportunities for employment, income, livelihood, or economic production are extremely limited. During the review period, the CTP was implemented in Kebbi, Sokoto, Katsina and Zamfara States. The overall goal of the CTP was expansion of access to quality basic education for 501,749 out-of-school children by 2020 in the beneficiary states.

6.6.3 Health

The Federal Government, also signed into law the Bill establishing the Nigeria Centre for Disease Control (NCDC). The Centre which was established in 2011 without legal backing, was to respond to the challenges of public health emergencies and enhance the country's preparedness for epidemics through prevention, detection, and control of communicable diseases. The ActI mandated the NCDC to detect, investigate, prevent and control diseases of national and international public health importance.

To further improve the health status of the country, the Global Fund, an international financing organization, approved a grant of US$660.00 million during the review period to further tackle HIV/AIDS, Tuberculosis and Malaria epidemics in Nigeria. Similarly, the Global Alliance for Vaccine Initiative (GAVI) extended its support for immunization in the country till 2028. The Federal Government would increase its domestic funding for immunisation by 10.0 per cent each year.

6.6.3.4 National Social Investment Programme (NSIP)

The National Social Investment Programme (NSIP) was established in 2016 to empower vulnerable individual of the society, improve the quality of life, provide affordable credit for Micro, Small and Medium Enterprises (MSMEs), reduce inequality and wide disparities, as well as, increase access to education and health services, among others. During the review period about 9.76 million persons had benefited from the various programmes under the NSIP which included Job Creation and Youth Empowerment (N-Power); National Home Grown School Feeding Programme (NHGSFP); Government Enterprise and Employment Programme (GEEP) and the National Cash Transfer Programme (NCTP).

The School Feeding Programme, which was designed to target 5.5 million school children, reached 8.2 million school children during the review period. About ₦40.00 Billion had been spent on feeding of school children across 26 states in the country since inception in 2015.

6.7 Housing and Urban Development

The Federal Ministry of Power, Works and Housing in the review period, commenced pilot projects for National Mass Housing programme in 34 states of the Federation. The Programme was aimed at delivering 2,736 housing units at affordable price to low income earners.

6.8 Activities of National Emergency Management Agency (NEMA)

The National Emergency Management Agency established Internally Displaced Persons (IDP) camps in 12 states (Delta, Edo, Anambra, Kogi, Bayelsa, Adamawa, Kebbi, Akwa Ibom, Cross River, Rivers, Kwara and Taraba) affected by the flooding incidence in 2018. The IDP camps were established in collaboration with each of the host state governments. An estimated number of 441,250 people were affected, while, 141,400 people were displaced by the flood.

6.9 Environment

To accelerate sustained economic growth, the Federal Ministry of Environment and its sub-agencies in the review period, aligned its key environmental policies and projects to the ERGP and Nationally Determined Contributions (NDCs), as captured in the Climate Change Paris Agreement. These policies and projects were the Great Green Wall (GGW), Nigeria Erosion & Watershed Management Project (NEWMAP), Reducing Emissions from Deforestation and Forest Degradation (REDD+), Ogoni Cleanup Project and the Green bonds.

The National Agency for the Great Green Wall (NAGGW) established shelterbelts across the hinterlands of Kebbi, Borno, Adamawa, Bauchi, Gombe, Jigawa, Kano, Katsina, Sokoto, Yobe and Zamfara states through provision of water facilities for irrigation, trees and shrubs. The shelterbelts were intended to halt and reverse land degradation, prevent depletion of biological diversity, as well as, promote grazing resources, agriculture and other livestock farming in the states.

During the period under review, the Nigeria Erosion & Watershed Management Project (NEWMAP) launched multi-sectoral projects to tackle erosion menace and other environmental challenges associated with climate change in Enugu State. The projects were designed to prevent and reverse land degradation by curbing gully erosion in Enyazurum, Ohom Orba and Onuiyi Nsukka that had been a threat to infrastructural development and livelihood existence in the areas.

To ensure further protection of the Nigerian waterways from pollution, the Federal Government agreed to enforce strict compliance with the International Maritime Organisation regulation, which sets a maximum of 0.05 per cent sulphur cap on all fuel used by vessels by the year 2020. To ensure compliance, NIMASA embarked on enlightenment and collaboration with stakeholders in determining modalities of ensuring compliance in the Nigerian waterways.

The clean-up activities of Ogoni land continued in 2018 with completion of procurement process and the selection of 21 companies by the Hydrocarbon Pollution Remediation Project (HYPREP) agency. To expedite the clean-up, the Federal Government released the sum of US$177.00 million out of the estimated US$1.00 billion required for the project. The estimated amount for the clean-up would be funded over a period of five years through public-private partnership.

CHAPTER SEVEN

EXTERNAL SECTOR DEVELOPMENTS

The external sector remained strong in 2018, following favourable crude oil price at the international market, stable crude oil production, and continued recovery in the domestic economy, as well as, the sustained reforms in the foreign exchange market. Consequently, an overall balance of payments surplus of ₦990.49 billion equivalent to 0.8 per cent of GDP was recorded in the review period. Similarly, the current account recorded a surplus of 2.3 per cent of GDP. The capital and financial account recorded a net financial liability of 3.3 per cent of GDP as against a net financial asset of 1.2 per cent of GDP in 2017, driven largely by higher inflow of portfolio investment and other investment liabilities. The stock of external reserves at end-December 2018 was US$42.59 billion, higher than the US$39.35 billion at end-December 2017. The level of external reserves could finance 13.0 months of current import commitments relative to 14.5 months in 2017. This was higher than both the international benchmark and that of the West African Monetary Zone (WAMZ) convergence criterion of three (3) months. External debt increased by 14.2 per cent, from US$18.91 billion or 5.0 per cent of GDP at end-December 2017, to US$21.59 billion or 5.3 per cent of GDP at end-September 2018, but remained within the international threshold of 40.0 per cent of GDP. The exchange rate remained relatively stable, supported by the CBN's exchange rate management policies. The international investment position (IIP) recorded a net financial liability of US$71.02 billion in 2018, above US$57.80 billion in 2017, indicating an increase of 22.9 per cent.

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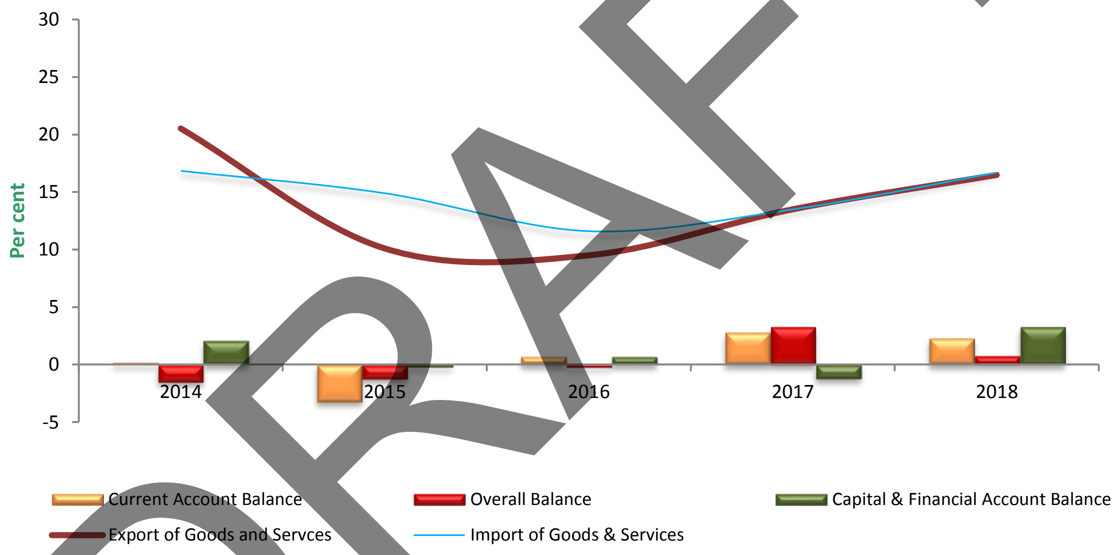
7.1 BALANCE OF PAYMENTS

7.1.1 Major Developments

The external account recorded an overall balance of payments surplus of ₦990.49 billion, representing 0.8 per cent of GDP, compared with ₦3,737.37 billion or 3.3 per cent of GDP in 2017. This was as a result of favourable crude oil prices, stable domestic crude oil production, and gradual domestic economic recovery, as well as, the relative stability in the foreign exchange market. The current account maintained a surplus position, equivalent to 2.3 per cent of GDP in the review period, though, lower than the 2.8 per cent of GDP in 2017, driven, largely, by higher import bills, and widened deficits in both the services and income accounts. The capital and financial account recorded a net financial liability equivalent to 3.3 per cent of GDP in 2018, as against a net financial asset of 1.2 per cent of GDP in 2017. This was attributed, largely to higher inflow of other investment and foreign portfolio liabilities. The stock of external reserves at end-December 2018 was US$42.59 billion, indicating an increase of 8.2 per cent above the US$39.35 billion at end-December 2017. The level could finance 13.0 months of import for goods only, or 7.5 months of import of goods and services compared with 14.5 months, or 9.3 months, respectively, in 2017. The stock of external debt at end-September 2018 increased by 14.2 per cent to US$21.59 billion, representing 5.3 per cent of GDP, above the US$18.91 billion or 5.0 per cent of GDP at end-December 2017. The level, however, remained within the international threshold of 40.0 per cent of GDP.

Figure 7.1: Balance of Payments, 2014-2018 (Per cent of GDP)



Source: CBN

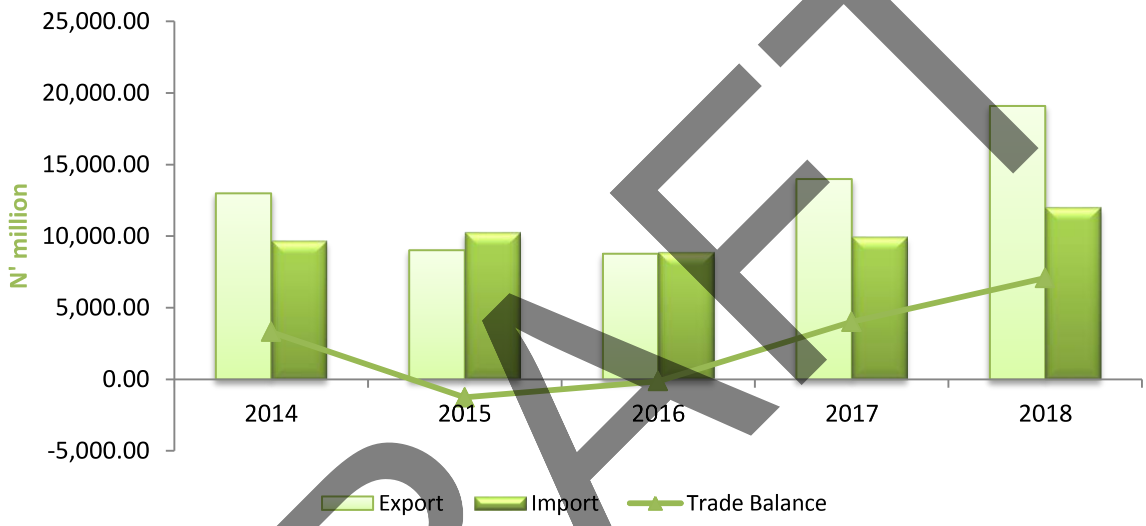
7.2 THE CURRENT ACCOUNT

Provisional data showed that in the review period, the current account recorded a surplus of ₦2,868.88 billion, or 2.3 per cent of GDP, compared with ₦3,174.43 billion or 2.8 per cent of GDP in 2017, indicating a decline of 9.6 per cent. The development was due largely, to higher import bills and widening deficits in both the services and income accounts, which overwhelmed the substantial improvement in both oil and non-oil export; and increased inflow of workers' remittances. The goods account recorded a higher trade surplus of ₦7,070.45 billion or 5.7 per cent of GDP, above the ₦4,013.95 billion, equivalent to 3.5 per cent of GDP in 2017. This was as a result of higher receipts from both oil and non-oil export. The deficit in the services account widened, significantly, to ₦7,326.70 billion (5.9% of GDP) in the review period, from ₦4, 040.24 billion (3.5% of GDP) in 2017. The development was due largely, to increased payment in respect of other business services, transportation, and travels, following the sustained access to foreign exchange during the review period. Similarly, the deficit in the income account widened to ₦4,703.43 billion (3.8% of GDP) in 2018, compared with ₦3,514.22 billion (3.1% of GDP) in 2017, due largely, to higher repatriation of dividends and other interest payments to non-resident investors. The sustained inflow of remittances from Nigerians in the diaspora resulted in a higher surplus of ₦7,828.57 billion or 6.3 per cent of GDP in the current transfers account, compared with ₦6,714.94 billion, or 5.8 per cent of GDP, in 2017.

7.2.1 The Goods Account

The goods account recorded a higher surplus of ₦7,070.45 billion (5.7% of GDP) in 2018, from ₦4,013.95 billion or 3.5 per cent of GDP in 2017, indicating an increase of 76.2 per cent. This was due largely, to higher receipts from the export of crude oil, gas and non-oil. Aggregate export, which represented 15.4 per cent of GDP, rose by 37.3 per cent to ₦19, 091.70 billion in 2018, above the ₦13, 987.45 billion in 2017. A breakdown of total export showed that crude oil and gas export remained dominant, accounting for 92.8 per cent of the total, while non-oil export represented the balance. Similarly, aggregate import rose by 20.5 per cent to ₦12,021.25 billion in 2018, compared with ₦9,973.50 billion in 2017. The increase was occasioned by improved access to foreign exchange for capital goods and raw materials, as well as, refined petroleum products. A further analysis of aggregate import showed that non-oil import, at 7.0 per cent of GDP, remained dominant, and accounted for 72.2 per cent of the total, while oil import, representing 2.7 per cent of GDP, accounted for the balance.

Figure 7.2: Value of Import, Export and Trade Balance, 2014 – 2018 (₦' million)



Source: CBN

7.2.1.1 Import (CIF)

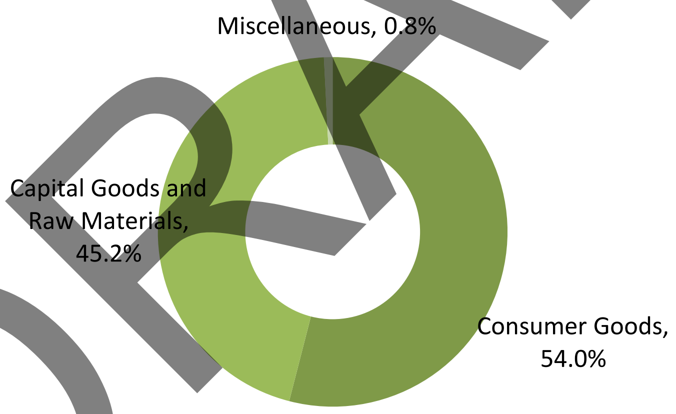
Aggregate import, unadjusted for balance of payments, increased by 22.4 per cent to ₦13,223.38 billion, over the ₦10,804.85 billion in 2017. A further analysis showed that non-oil import increased by 16.6 per cent to ₦9,550.22 billion, in the review period, compared with ₦8,189.39 billion in 2017. Similarly, oil import increased by 40.5 per cent to ₦3,673.36 billion in 2018, above the ₦2,615.45 billion in 2017, reflecting the persisting low operating capacity of domestic refineries.

Analysis of aggregate import, based on returns from the banks on foreign exchange utilisation, showed that the industrial sector accounted for 45.5 per cent of total import, followed by manufactured products with 22.2 per cent. Food products, oil, transport, agriculture and minerals sub-sectors accounted for 14.5, 12.0, 3.0, 1.8, and 1.0 per cent, respectively, of the total.

(a) Import by Major Groups

A disaggregation of import by major groups showed the dominance of consumer goods with a value of ₦7,144.74 billion or 54.0 per cent of the total, compared with ₦5,575.49 billion or 51.6 per cent in 2017. The capital goods and raw material category, which constituted 45.2 per cent of the total, rose to ₦5,978.22 billion in 2018, while miscellaneous import, at ₦100.42 billion, accounted for the balance. A further breakdown revealed that, under the consumer goods category, importation of durable goods, valued at ₦4,843.71 billion, accounted for 36.6 per cent of the total, while non-durable goods, at ₦2,301.02 billion, represented 17.4 per cent of the total. In the capital goods and raw material category, the former, dominated, with ₦4,499.23 billion or 34.0 per cent of the total, while the latter, mainly industrial chemicals, at ₦1,478.99 billion, constituted 11.2 per cent of the total.

Figure 7.3: Import by Major Groups, 2018 (Per cent)



Source: CBN

(b) Import by the Harmonised System (HS) Classification

Analysis of import by Harmonised System (HS) classification showed that mineral products, at ₦3,821.56 billion, accounted for the largest share of 28.9 per cent of the total. This was followed by vehicles, aircrafts, vessels and associated transport equipment category, at ₦2,446.33 billion or 18.5 per cent. The value of machinery and mechanical appliances was ₦2,208.30 billion (16.7%); products of chemicals or allied, ₦1,071.09 billion (8.1%); base metals and articles of base metal, ₦700.84 billion (5.3%); plastic and articles thereof, ₦634.72 billion (4.8%); and vegetable products, ₦568.61 billion

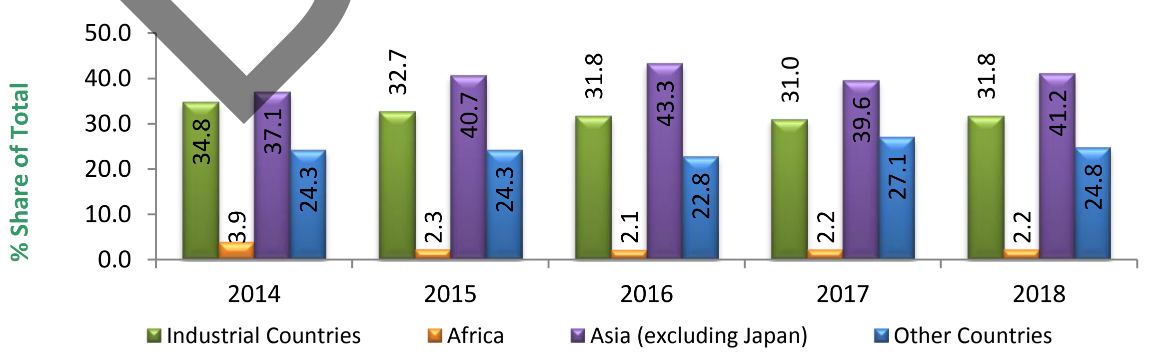
(4.3%). A further analysis revealed that prepared foodstuffs, at, ₦515.71 billion, constituted 3.9 per cent of the total; live animals & animal products, ₦409.92 billion (3.1%); and pulp of wood ₦238.02 billion (1.8%). Others included: optical, photographic, cinematographic, measuring appliances, ₦185.13 billion (1.4%); textile & textile articles, ₦171.90 billion (1.3%), while other categories accounted for the balance.

(c) Non-oil Import by Country of Origin

A disaggregation of non-oil import to Nigeria by country of origin showed China as dominant in 2018, accounting for 27.3 per cent of the total. This was followed by the USA and India, with 13.2 and 7.0 per cent, respectively. Non-oil import from United Kingdom was 4.4 per cent, while The Netherlands had a share of 3.2 per cent of the total. Import from South Korea represented 2.7 per cent; Belgium, 2.6 per cent; and Italy, 2.4 per cent. Other countries accounted for the balance.

Analysis of import by group showed that the share of Asia (excluding Japan) increased to 41.2 per cent, compared with 39.6 per cent in 2017. The share of industrialised countries also increased marginally to 31.8 per cent, compared with 31.0 per cent in 2017, while that of "Other" countries as a group, decreased to 24.8 per cent in 2018, from 27.1 per cent in 2017. The share of African countries as a group remained at 2.2 per cent of the total.

Figure 7.4: Non-oil Import by Country of Origin, 2014-2018 (Percentage share of total)



Source: CBN

7.2.1.2 Export (FOB)

Aggregate merchandise export rose significantly by 36.5 per cent to ₦19,091.70 billion, equivalent to 15.4 per cent of GDP in 2018, compared with ₦13,987.45 billion or 12.2 per cent of GDP in 2017. The boost in merchandise export was attributed to the increase in crude oil prices, improvement in domestic crude production and higher non-oil receipts. The dominance of crude oil export in total export was evident as it constituted 81.7 per cent of the total. Gas sales accounted for 11.1 per cent, while non-oil export, made up the balance.

A breakdown of export showed that crude oil receipts rose by 41.5 per cent to ₦15,603.73 billion or 12.6 per cent of GDP in the review period, compared with ₦11,026.70 billion or 9.6 per cent of GDP in 2017, attributed to improvement in both price and production. The average price of Nigeria's reference crude, the Bonny Light, increased to US$72.53 per barrel in the review period, compared with US$54.90 per barrel in 2017, following OPEC's extension of crude oil production cut deal and rising geopolitical tensions. Similarly, crude oil production increased to an average of 1.88 mbpd in 2018, from 1.72 mbpd in 2017. Gas export, including liquefied natural gas and condensate, increased by 12.5 per cent to ₦2,121.46 billion or 1.7 per cent of GDP, compared with ₦1,886.57 billion (1.7% of GDP) in 2017. The value of non-oil export increased by 27.2 per cent, to ₦1,367.49 billion in the review period, in comparison with ₦1,074.90 billion in 2017, reflecting steady progress in the diversification drive of the Federal Government.

[a] Direction of Oil Export

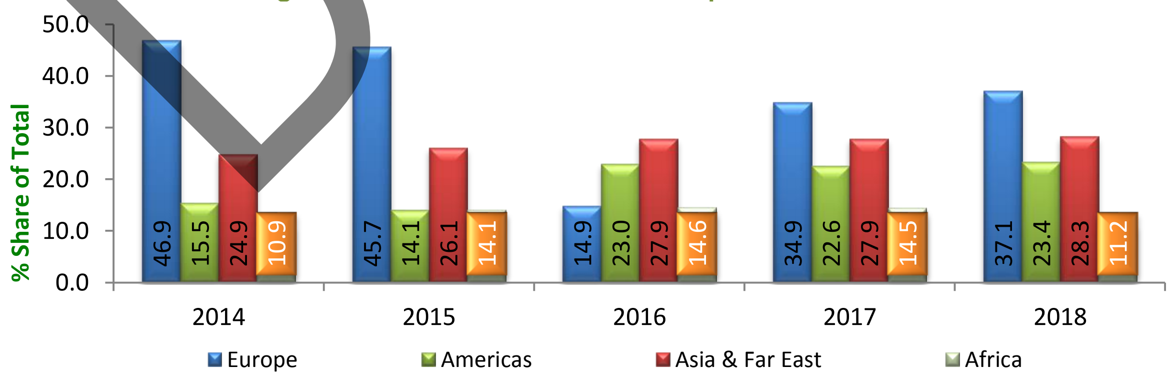
In the review period, provisional data on the direction of Nigeria's crude oil export revealed that Europe, as a group, remained the major regional destination for Nigeria's crude oil export. This was followed by Asia and the Far East, the Americas, and African countries, in that order. By country of destination, India ranked highest, followed by the United States of America, The Netherlands, Spain, France and Benin Republic.

Europe constituted 37.1 per cent of the total, with crude oil export of ₦5,784.14 billion. Within the group, The Netherlands was the highest crude oil export destination, with a share of 11.0 per cent of the total, followed by Spain, 8.0 per cent; France, 5.6 per cent; the United Kingdom, 5.5 per cent; Italy, 3.0 per cent; and Germany, 2.0 per cent. Within the Oceania/Pacific region, Australia was the only destination of Nigeria's crude oil with a value of ₦12.48 billion, representing 0.1 per cent of the total.

Asia and the Far East, as a group, accounted for 28.3 per cent of the total, with a value of ₦4,418.08 billion. Export to India dominated the group, accounting for 21.0 per cent, followed by Indonesia with 5.0 per cent; China, 1.0 per cent; Thailand, 0.7 per cent; and Singapore, 0.4 per cent. Export to the Americas, as a group, increased to ₦3,643.99 billion or 23.4 per cent, of the total in 2018, compared with ₦2,496.21 billion or 22.6 per cent of the total in 2017. Within the group, export to the United States of America accounted for 13.0 per cent, followed by Canada, with 4.0 per cent; Brazil, 3.0 per cent; Argentina and Peru, 0.6 per cent apiece; and Uruguay, 0.5 per cent. Other countries in the group accounted for the balance.

The share of African countries was the least at 11.2 per cent of the total. Benin Republic was the highest buyer with 4.0 per cent of the total, followed by Cameroun, 2.6 per cent; South Africa, 1.8 per cent; Ghana, 1.2 per cent; Côte d'Ivoire and Senegal, 0.7 per cent apiece; and 'other countries', the balance.

Figure 7.5: Direction of Crude Oil Exports, 2014 - 2018



Source: CBN

[b] Non-oil Export

Non-oil export increased by 27.2 per cent to ₦1,367.49 billion, or 1.1 per cent of GDP, in 2018, compared with ₦1,074.80 billion or 0.9 per cent of GDP in

2017, reflecting the sustained diversification drive of the Federal Government and improved repatriation of export proceeds by exporters.

A breakdown of non-oil export by product showed that agricultural produce category, valued at ₦640.10 billion, constituted the highest share of 46.8 per cent of the total. Within the category, export of cocoa beans, represented 15.7 per cent, followed by sesame seeds, 5.6 per cent; fish & crustaceans, 2.3 per cent; rubber, 2.1 per cent; cashew nuts, 0.9 per cent; and other agricultural produce made up the balance.

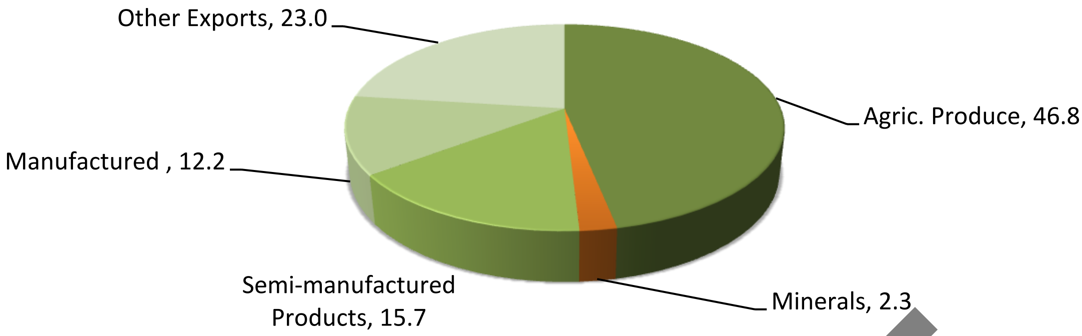
The semi-manufactured products sub-category, at ₦214.38 billion, constituted 15.7 per cent, compared with ₦216.73 billion or 20.2 per cent in 2017. Within the category, export of leather & processed skins recorded the highest performance of 4.8 per cent, followed by aluminum products at 2.5 per cent. Poly products constituted 2.3 per cent; lead, 1.8 per cent; steel/iron, 1.0 per cent; cocoa products, and furniture/processed wood, 0.7 per cent apiece. Other products within the sub-category accounted for the balance.

The manufactured goods category, which was ₦165.98 billion, accounted for 12.2 per cent of the total, out of which export of tobacco was 5.0 per cent. Other manufactured products had 1.8 per cent; aluminum products, 1.4 per cent; beer/beverages, 1.0 per cent; plastic, 0.8 per cent; soap and detergent, 0.6 per cent; milk products, 0.4 per cent; and paper products, 0.2 per cent, while "others" accounted for the balance.

The minerals sub-category had ₦31.73 billion, accounting for 2.3 per cent of the total. Lead constituted 0.7 per cent; zinc, 0.4 per cent; copper, 0.3 per cent; while "other minerals" accounted for the balance.

The "other" export sub-category, at ₦314.83 billion, accounted for 23.0 per cent of total non-oil export, of which urea constituted 9.1 per cent. Petroleum products, and cement/lime products represented 7.5 and 3.2 per cent, respectively, of the total.

Figure 7.6: Non-oil Export by Product, 2018 (Per cent)



Source: CBN

[c] Non-oil Export to the ECOWAS Sub-Region

Analysis of non-oil export to the ECOWAS sub-region increased, significantly, by 25.5 per cent to US$464.72 million, compared with US$370.24 million in 2017. Among member-countries, export to Ghana dominated with US$189.13 million, or 40.7 per cent of the total. This was followed by Togo, US$188.01 million (40.5%); Niger, US$131.37 million (28.3%); Cote d'Ivoire, US$60.16 million (12.9%); and Benin Republic, US$54.80 million (11.8%). At US$0.58 million, export to Guinea Bissau was the least. The dominant export products to the sub-region remained: tobacco; plastics; rubber; plastic footwear; soap and detergents; and polybags.

[d] Activities of the Top 100 Non-oil Exporters

Aggregate export value of the top one hundred non-oil exporters increased by 27.3 per cent to US$2.10 billion, compared with US$1.65 billion in 2017. The increase was attributed to improved exporters' confidence in the I&E window, as an incentive to repatriate export proceeds. Olam Nigeria Limited ranked 1st with proceeds of US$286.76 million from the export of premium grade sesame seeds(DHS) and fermented cocoa bean seeds to Australia, Greece, Turkey, The Netherlands and Syria. Indorama Eleme Fertilizer and Petrochemicals Limited ranked 2nd with US$197.32 million from the export of granular urea in bulk to Cote d'Ivoire, Brazil, Canada, the US, Senegal, Benin, Cameroun and Argentina. The 3rd major exporter was NNPC/PPMC with US$165.93 million from export of low pour fuel oil to the US, The Netherlands, Spain and Togo.

In the 4th place was the British American Tobacco (BAT) Nigeria, with US$101.57 million from the export of cigarettes to Liberia, Guinea, Ghana, Cameroun, Cote d'Ivoire and Niger. In the 5th position was Wacot Limited with US$87.87 million from the export of sesame seed and ginger to The Netherlands, Italy, Poland, Turkey, Japan and India. Indorama Eleme Petroleum Limited ranked 6th with receipt of US$75.59 million from the export of petrochemical products to Ghana, India, Greece, Spain and Portugal. Metal Recycling Industries Limited ranked 7th with proceeds of US$75.45 million, from the export of copper and aluminium ingots to Japan, China and South Africa. Mamuda Industries (Nigeria) Limited and Dangote Cement PLC ranked 8th and 9th with receipts valued at US$67.93 million and US$54.29 million, respectively. Mamuda Industries exported processed and finished leather to Italy, India and Spain, while Dangote Cement exported Portland lime cement to Niger Republic, Togo and Ghana.

Saro Agro Allied Limited and Flour Mills of Nigeria PLC ranked 24th and 33rd with earnings of US$20.34 million and US$14.38 million, respectively, from the export of cocoa beans to Estonia, The Netherlands, Malaysia and Spain; and flour bags and wheat pellets to Benin, Mexico, the US, Morocco and Puerto Rico. A further analysis showed that Crown Flour Mills Limited, GZ Industries and West African Tannery Company Limited were in the 41st, 45th and 62nd positions with values of US$11.33 million, US$9.31 million and US$4.91 million, respectively, from the export of soya beans to Nepal; aluminum and silver cans to Benin, South Africa and Togo; and goat and sheep leather to China, Hong Kong, India and Italy.

Abvee Industries Limited ranked 86th and earned US$2.94 million through the export of polyester film to Ghana, Bahrain and Cameroun. In the 90th position was MINL Limited with export earnings of US$2.88 million from aluminium alloy ingot to Japan, Thailand, India and Ghana. B&B Leather and Alkem Nigeria Limited were in the 91st and 95th positions with proceeds of US$2.81 million, and US$2.23 million, respectively, from the export of sheep leather to Spain; and polyethylene terephthalate flakes to the US, India, Turkey and Germany.

Masvi & Sons (Nigeria) Limited placed 100th with earnings of US$1.94 million from the export of timber to Vietnam.

7.2.2 The Services Account

The deficit in the services account widened, significantly by 81.3 per cent, to ₦7, 326.70 billion (5.9% of GDP), compared with ₦4,040.24 billion (3.5% of GDP) in 2017. This was as a result of increased out-payments, particularly in respect of travel, transportation, and other business services, in the review period.

A breakdown of the account showed that net-payment, in respect of travel services, increased significantly, to ₦2,353.75 billion, compared with ₦991.62 billion in 2017. This was due, largely, to the improved access to foreign exchange in respect of both personal (mainly education and health-related) and business travels. Similarly, payments in respect of transportation services, at ₦1,490.34 billion, increased by 45.9 per cent, as a result of higher payment in respect of passenger and freight charges. Net payments in respect of computer & information and other business services also increased to ₦91.07 billion and ₦3,307.53 billion, respectively, above ₦67.86 billion and ₦1,634.75 billion, in 2017. Insurance services, however, recorded a lower net payment of ₦86.62 billion, compared with ₦227.04 billion in 2017.

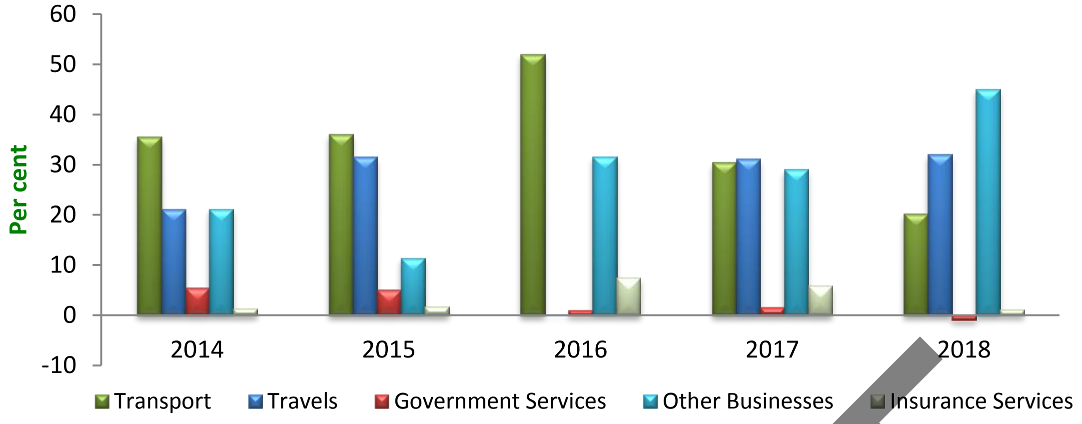
On the other hand, communications and government services recorded lower net surpluses of ₦18.39 billion and ₦64.32 billion, respectively, compared with ₦21.98 billion and ₦67.10 billion in 2017. Financial services recorded a net surplus of ₦13.92 billion, against a net deficit of ₦75.59 billion in 2017.

In terms of their contributions to total net deficit, other business services accounted for 45.1 per cent of the total, while travel services constituted 32.1 per cent, and transportation services, 20.3 per cent. Insurance services, computer & information services, and royalties & licence fees, contributed 1.2 per cent apiece, and 1.1 per cent, respectively. Other categories accounted for the balance.

7

EXTERNAL SECTOR DEVELOPMENTS

Figure 7.7: Percentage Share of Major Invisible Services, 2014-2018



Source: CBN

Table: 7.2 Net Share of Major Invisible Transactions (Per cent), 2014 – 2018					
Items	2014	2015	2016	2017	2018
Transportation	35.6	36.1	52.1	25.3	20.3
Travel	21.2	31.6	0.1	24.5	32.1
Insurance Services	1.4	1.8	7.5	5.6	1.2
Communication Services	3.7	3.9	1.0	(0.5)	(0.3)
Construction Services	0.3	0.3	0.0	0.01	0.04
Financial Services	5.5	5.3	1.5	1.9	(0.2)
Computer and Information Services	3.1	2.1	1.8	1.7	1.2
Royalties and License Fees	1.1	1.5	3.1	1.9	1.1
Government Services	5.5	5.1	1.0	(1.7)	(0.9)
Personal, Cultural & Recreational Services	1.4	1.0	0.2	0.8	0.2
Other Business Services	21.2	11.4	31.7	40.5	45.3
Total	**100**	**100**	**100**	**100**	**100**

Source: CBN

7.2.3 The Income Account

In the review period, the deficit in the income account widened by 33.8 per cent to ₦4,703.43 billion, equivalent to 3.8 per cent of GDP, compared with ₦3,514.22 billion or 2.4 per cent of GDP in 2017. The development was attributed, mainly, to higher deficit recorded in the investment income sub-account, which rose by 33.3 per cent, to ₦4,777.34 billion, compared with ₦3,584.10 billion in 2017. This was due to increased repatriation of dividends and distributed branch profits by non-resident investors, as well as, interest payments on portfolio investments. However, the "Other" investment income sub-account, driven, largely, by interest earnings on external reserves, maintained a surplus position, rising to ₦57.21 billion in 2018, compared with ₦6.93 billion in 2017. Also, the surplus in the compensation of employees' sub-account increased by 5.8 per cent to ₦73.91 billion, compared with ₦69.88 billion in 2017.

7.2.4 Current Transfers

The surplus in the current transfers account increased by 16.6 per cent to ₦7,828.57 billion, representing 6.3 per cent of GDP, compared with ₦6,714.94 billion or 5.8 per cent of GDP in 2017. This was attributed to higher inflow of workers remittances from abroad. The surplus in the general government sub-account, which comprised receipts from foreign embassies and international organisations, declined to ₦131.58 billion in 2018, compared with ₦207.49 billion in the preceding year. On the other hand, the "Other" sectors sub-account, driven, largely, by the inflow of workers' remittances, increased by 17.3 per cent to ₦7,822.73 billion, compared with ₦6,666.7 billion in 2017. This was as a result of 14.7 per cent increase in workers remittances to ₦7,635.36 billion in 2018, from ₦6,655.75 billion in 2017, driven by improved global economic conditions.

Table 7.3: Current Transfers (Naira Billion), 2015 – 2017

	2015	2016	2017
INFLOW (credit)			
1.General government (Grants, ODA, Technical Assistance & Gifts)	355.5	207.49	131.58
2. Other sector account (remittances and other transfers in kind)	4,936.5	6,666.70	7,822.73
OUTFLOW (debit)			
1.General government (Payments to International Organizations & other payments)	(1.9)	-	-
2. Other sector account (remittances and other transfers)	(264.3)	(159.25)	(125.74)
NET CURRENT TRANSFERS	5,025.8	6,714.94	7,828.57

Source: CBN

7.3 THE CAPITAL AND FINANCIAL ACCOUNT

The capital and financial account posted a net financial liability of ₦4,040.94 billion, equivalent to 3.3 per cent of GDP, as against a net financial asset of

₦1,321.24 billion or 1.2 per cent of GDP in 2017. This was attributed to higher inflow of portfolio investment and other investment liabilities, during the review period.

A disaggregation of financial flows showed that financial assets, representing financial outflows, declined marginally by 0.1 per cent to ₦6,785.88 billion or 5.5 per cent of GDP in the review period, compared with ₦6,791.72 billion or 5.9 per cent of GDP in 2017. Of the total financial assets, direct investment abroad, driven by equity investments in foreign enterprises, increased by 7.5 per cent to ₦421.93 billion (0.3% of GDP), compared with ₦392.65 billion (0.3% of GDP) in 2017. Portfolio investment assets, on the other hand, declined further to ₦0.30 billion in 2018, compared with ₦2.21 billion in 2017, reflecting the low risk appetite of resident investors and their preference for the domestic financial instruments, due to higher returns. Other investment asset, on the other hand, increased significantly to ₦5,373.16 billion, compared with ₦2,659.49 billion in 2017, driven largely, by higher trade credits, and foreign currency holdings by banks and the private sector.

Total financial liabilities, representing foreign financial inflows, increased significantly in 2018 to ₦10,826.81 billion (8.7% of GDP), compared with ₦5,470.47 billion (4.8% of GDP) in 2017. The development was due to significant inflow of other investment liabilities and foreign portfolio investment. A breakdown showed that, inflow of foreign direct investment declined by 34.1 per cent to ₦704.40 billion (0.6% of GDP) in the review period, compared with ₦1,069.42 billion (0.9% of GDP) in 2017. This was due largely, to lower inflow of new equity capital, owing to uncertainties surrounding the political environment, ahead of the 2019 general elections and the lingering effect of the 2016-2017 economic recession. Inflow of portfolio investment, on the other hand, increased by 50.3 per cent to ₦3,914.43 billion (3.2% of GDP) in 2018, compared with ₦2,604.33 billion or 2.3 per cent of GDP in 2017. This was as a result of a huge inflow of capital for the purchase of short-term government debt instruments, driven by high returns on investment. Inflow for the purchase of equity securities declined by 20.6 per cent to ₦709.29 billion in the review period, compared with ₦892.74 billion in 2017, reflecting the bearish performance of the Nigeria's capital market. Portfolio inflow in respect of debt securities (mainly government bonds and money market instruments), increased by 87.0 per cent to ₦3,204.74 billion, compared with the ₦1,711.59 billion in 2017, reflecting its attractiveness, compared with other jurisdictions, particularly Europe. The ratio of external reserves to portfolio investment was 360.9 per cent, which was lower than the 461.3 per cent in 2017, but was well above the benchmark of 100.0 per cent short-term debt cover of the Greenspan-Guidotti measure of external reserves adequacy.

Other investment liabilities, driven largely by loans, also increased to ₦6,207.98 billion (5.0% of GDP), compared with ₦1,796.73 billion (1.6% of GDP) in 2017. Drawdown on loans by the general government increased significantly to ₦3,802.39 billion, compared with ₦1,595.46 billion in 2017. Drawdown by the private sector amounted to ₦2,167.21billion in 2018, as against a repayment of ₦517.57 billion in 2017. The banking sector, however, repaid ₦26.07 billion in the review period, as against a drawdown of ₦184.03 billion in 2017. In terms of currency and deposits by non-residents in Nigerian banks, a placement of ₦261.71 billion was recorded in the review period, compared with ₦534.81 billion in the preceding year, indicating a decline of 51.1 per cent.

In terms of share of the components in total capital inflow, other investment liabilities accounted for the largest share of 57.3 per cent; portfolio investment accounted for 36.2 per cent; and foreign direct investment inflow, 6.5 per cent.

The stock of external reserves increased by 8.2 per cent, to US$42.59 billion at end-December 2018, compared with US$39.35 billion at end-December 2017. This could finance 13.0 months of current import of goods only or 7.5 months of import of goods and services, compared with 14.5 and 9.3 months, respectively, in 2017.

The external debt stock at end-September 2018 was US$21.59 billion, an increase of 14.2 per cent above the US$18.91 billion at end-December 2017. This was, due largely to the issuance of the Euro bonds during the year.

Multilateral borrowing, mainly from the World Bank and the African Development Bank, stood at US$10.89 billion, constituting 50.4 per cent of total external debt stock, while loans from commercial sources, in form of Euro and Diaspora bonds, at US$8.30 billion, accounted for 38.4 per cent of the total. Loans from bilateral sources, principally the China Exim Bank, constituted the balance of 11.2 per cent of the total. At 5.3 per cent of GDP, public sector external debt remained within the international threshold of 40.0 per cent of GDP.

7.4 CAPITAL IMPORTATION

7.4.1 Capital Importation by Nature of Investment

Returns from the commercial banks showed that aggregate new capital injected into the economy was US$18.41 billion in 2018, compared with US$12.40 billion in 2017, indicating an increase of 48.5 per cent. A disaggregation of capital imported by type of investment showed that portfolio investment, at US$12.97 billion, accounted for the largest share of 70.4 per cent of the total. Of this amount, money market instruments amounted to US$9.34 billion; equity securities, US$2.61 billion and bonds, US$1.02 billion. Others were: inflow of foreign direct investment equity, US$1.28 billion or 7.0 per cent of the total; and other investment inflow, US$4.16 billion or 22.6 per cent of the total. A breakdown of other investment inflow showed that loans was US$3.82 billion; other claims, US$0.32 billion; trade credits, US$0.02 billion; and currency deposits, the balance.

Table 7.4: New Capital Inflows (US$' Thousand)

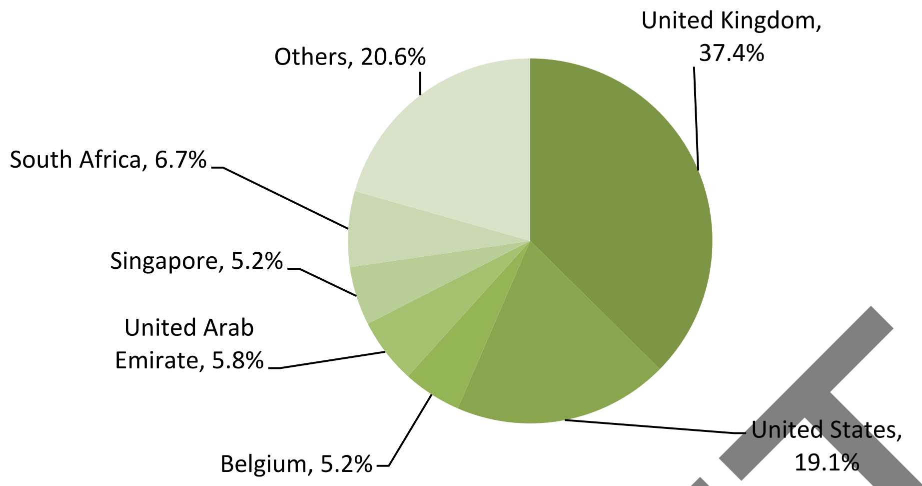
NATURE OF CAPITAL	2014	2015	2016	2017	2018
Foreign Direct Investment – Equity	2,292,466.20	1,469,093.20	1,043,142.80	1,038,697.63	1,277,160.48
Foreign Direct Investment - Other capital	13,028.90	4,210.40	874.8	2,318.60	6,138.32
Sub-Total	2,305,495.10	1,473,303.60	1,044,017.60	1,041,016.22	1,283,298.80
Portfolio Investment – Equity	11,448,161.00	4,691,540.40	859,053.60	3,593,989.34	2,607,990.86
Portfolio Investment – Bonds	2,451,604.60	827,144.00	395,900.00	526,807.97	1,022,036.18
Portfolio Investment - Money Market Instruments	1,025,018.40	571,955.30	557,917.90	3,309,508.90	9,337,510.56
Sub - Total	14,924,784.00	6,090,639.70	1,812,871.50	7,430,306.21	12,967,537.50
Other Investments - Trade Credits	22,030.00	-	160	295,646.45	16,923.70
Other Investments - Loans	1,428,567.80	1,685,965.40	2,240,109.70	2,894,334.07	3,820,811.43
Other Investments - Currency Deposits	-	8,102.70	27.5	3,517.95	1,033.55
Other Investments - Other Claims	2,120,050.00	527,581.10	26,940.80	739,598.56	318,294.82
Sub - Total	3,570,647.80	2,221,649.20	2,267,238.00	3,933,097.03	4,157,063.49
TOTAL	20,800,926.95	9,785,592.41	5,124,127.07	12,404,419.46	18,407,899.79

Source: CBN

7.4.2 Capital Importation by Country of Origin

A breakdown of capital importation by country of origin showed the United Kingdom as the dominant source of capital with a value of US$6.89 billion or 37.4 per cent of total capital inflow, followed by the United States, US$3.52 billion or 19.1 per cent. Inflow from South Africa, US$1.23 billion (6.7%); United Arab Emirates, US$1.08 billion (5.8%); Belgium, US$0.97 billion (5.2%); and Singapore, US$0.96 billion (5.2%). Other countries accounted for the balance.

Figure 7.8: Capital Importation by Country of Origin, 2018
(Per cent)

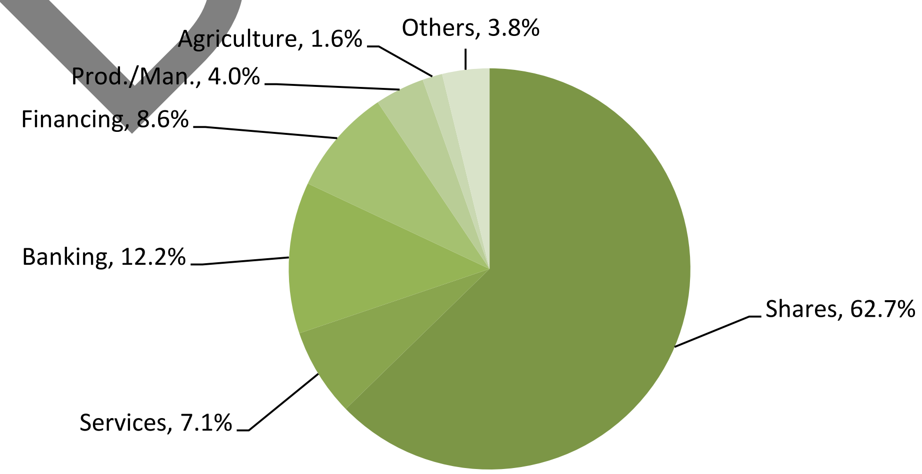


Source: CBN

7.4.3 Capital Importation by Sector

Analysis of imported capital by economic sectors indicated that the capital market received the highest share of 62.7 per cent, valued at US$11.53 billion for the purchase of shares. Inflow into banking amounted to US$2.25 billion and accounted for 12.2 per cent of the total. Financing, servicing, production/manufacturing and agriculture received US$1.57 billion, US$1.32 billion, US$0.74 billion and US$0.30 billion and constituted 8.6, 7.1, 4.0 and 1.6 per cent, respectively, of the total. Inflow to other sectors accounted for the balance.

Figure 7.9: Capital Importation by Sector, 2018
(Per cent)

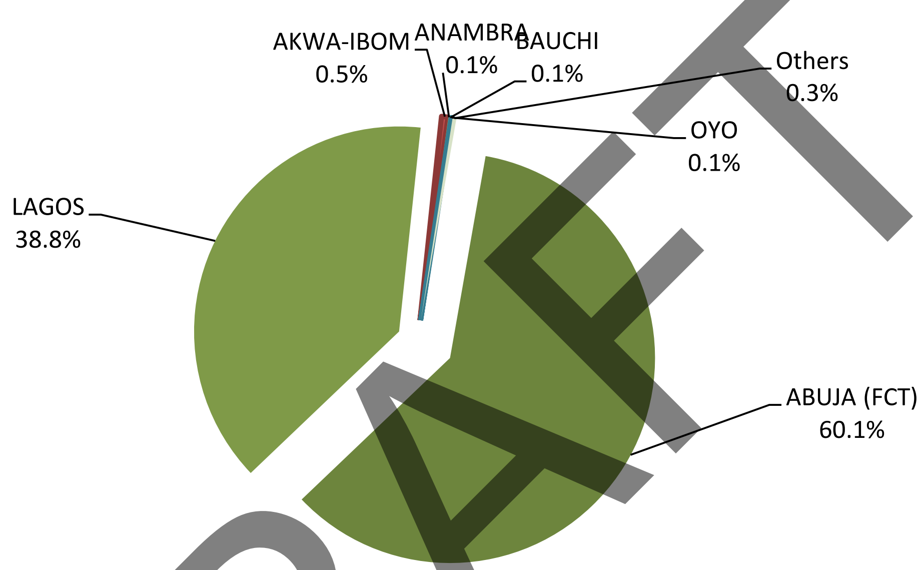


Source: CBN

7.4.4 Capital Importation by Destination

In terms of the destination on state-by-state basis, Federal Capital Territory (FCT) received the highest inflow, with 60.1 per cent, followed by Lagos State, 38.8 per cent. Akwa-Ibom State received 0.5 per cent, while Anambra, Bauchi and Oyo states constituted 0.1 per cent, apiece. Other states accounted for the balance.

Figure 7.10: Capital Importation by Destination States, 2018 (Per cent)



Source: CBN

Table 7.5: Capital Importation: Country and Sector Inflow (US$' Million)

Country	2015	2016	2017	2018	Sector	2015	2016	2017	2018
United Kingdom	3,913	2,132	4,969.1	6,890.94	Shares	5,780	1466	7,502.5	11,533.3
United States	2,477	946	2301.5	3516.65	Banking	964	933	1061.7	2,251.6
Belgium	-	79	1,025.3	965.62	Financing	866	95	439.3	1,574.3
Mauritius	557	129	718.7	674.58	Services	201	299	1,096.4	1,315.3
Singapore	-	276	672.1	962.62	Prod./Man.	433	303	1003.3	744.1
South Africa	261	177	614.4	1,234.84	Agriculture	-	22	159.4	298.4
Switzerland	119	272	415.9	415.9	Oil and Gas	32	720	331.9	137.4
United Arab Emirates (U.A.E)	62	51	358.9	1,076.43	Trading	175	125	81.9	136.9
The Netherlands	1,152	517	246.3	246.3	Telecom	944	931	544.6	166.6

France	-	77	153.1	153.1	Construction	28	32	98.9	57.2
Luxembourg	48	139	117.0	117.0	Electrical	-	125	13.4	37.4
China	11	17	50.7	50.7	Transport	10	5	3.0	15.4
Sweden	32	70	24.5	24.5	Breweries	9	54	27.2	6.1
Others	1,071	803	737.0	737.0	Others	342	287	40.9	134.05
Total	**9,703.0**	**5,685.0**	**12,404.4**	**18,408.0**		**9,784.0**	**5,397.0**	**12,404.4**	**18,408.0**

Source: CBN

7.5 THE INTERNATIONAL INVESTMENT POSITION (IIP)

Provisional data on International Investment Position (IIP) for Nigeria showed that a higher net financial liability of US$71.02 billion was recorded in 2018, compared with US$57.80 billion in 2017. The stock of financial assets increased by 14.4 per cent to US$176.11 billion at end-December 2018, compared with US$153.91 billion at end-December 2017, due largely, to accretion to external reserves, increased foreign currency holdings of banks and the private sector, as well as, higher trade credit.

A further breakdown showed that foreign direct investment increased by 9.7 per cent to US$15.67 billion, compared with US$14.29 billion at end-December 2017. Portfolio investment assets, on the other hand, increased marginally to US$25.20 billion at end-December 2018, compared with US$25.19 billion at end-December 2017. Other investment assets increased by 23.4 per cent to US$92.66 billion, compared with US$75.08 billion at end-December 2017, due largely, to the increase in trade credits, loans, and foreign currency holdings. Aggregate trade credits increased to US$16.82 billion at end-December 2018, compared with US$7.53 billion at end-December 2017. Similarly, the stock of loans increased by 4.5 per cent, to US$14.94 billion at the end of the review year, relative to US$14.30 billion at end-December, 2017. Total currency deposits, increased by 14.4 per cent to US$60.89 billion at end-December 2018, compared with US$53.24 billion at end-December 2017,as a result of the 45.1 and 14.5 per cent increase in foreign currency holdings of the banks and private sector, respectively. The stock of external reserves at end-December 2018 also increased by 8.2 per cent to US$42.59 billion from US$39.35 billion at end-December 2017. As a share of total stock of assets at end-December 2018, other investment assets remained dominant at 52.6 per cent, followed by reserve assets, 24.2 per cent; portfolio investment, 14.3 per cent; and direct investment accounted for the balance.

The stock of financial liabilities increased by 16.7 per cent to US$247.14 billion at end-December 2018, compared with US$211.71 billion at end-December 2017. A disaggregation of the stock showed that direct investment increased by 2.4 per cent to US$99.99 billion at end-December 2018, compared with US$97.69 billion at end-December 2017. Direct investment equity capital and reinvested earnings increased marginally by 0.4 per cent to US$96.19 billion, compared with US$95.82 billion at end-December 2017. Similarly, other FDI capital increased to US$3.80 billion, compared with US$1.87 billion at the end of the preceding year.

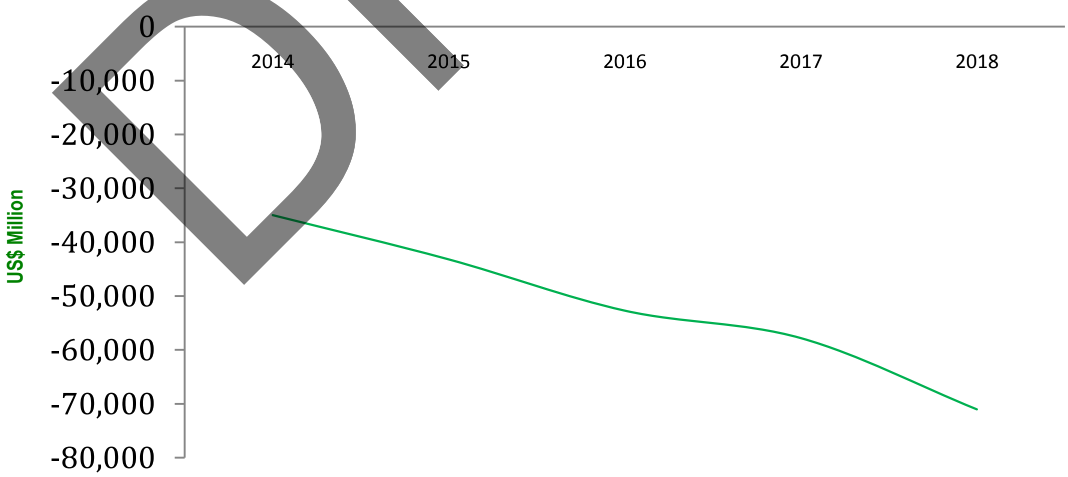
A further analysis revealed that portfolio investments increased by 17.7 per cent to US$85.22 billion, compared with US$72.41billion, at end-December 2017. This was, due majorly, to the increase in both portfolio equity and debt securities to US$32.86 billion and US$52.36 billion, respectively, at end-December 2018, compared with US$30.53 billion and US$41.88 billion, at end-December 2017. Other investment liabilities, which comprised loans and foreign currency deposits, increased by 48.8 per cent to US$61.93 billion at end-December 2018, compared with US$41.61 billion at end-December 2017. The stock of loan liabilities, increased by 65.4 per cent to US$49.16 billion, compared with US$29.71 billion at the end of the preceding year. A breakdown showed that loans to general government and the private sector increased by 81.1 and 92.4 per cent, to US$27.80 billion and US$14.77 billion, respectively, while that of banks declined by 1.3 per cent to US$6.60 billion at end-December 2018. The stock of currency & deposits increased by 7.3 per cent to US$12.77 billion at the end of the review period, compared with US$11.90 billion at end-December 2017.

The stock of FDI dominated total financial liabilities, accounting for 40.5 per cent of the total, followed by portfolio investment, with a share of 34.5 per cent and other investment liabilities accounted for the balance.

Table 7.6: International Investment Position (IIP), 2014-2018 (US$ Million)					
Type of Asset/Liability	**2014 /1**	**2015 /1**	**2016 /1**	**2017 /1**	**2018/2**
Net international investment position of Nigeria	**(34,974.09)**	**(43,190.71)**	**(52,704.08)**	**(57,799.14)**	**(71,021.77)**
Assets	**148,362.73**	**145,685.61**	**139,969.54**	**153,908.01**	**176,114.68**
Direct investment abroad	***10,258.94***	***11,694.15***	***12,999.19***	**14,285.36**	***15,666.13***
Portfolio investment abroad	***23,332.99***	***25,009.48***	***25,186.90***	**25,194.14**	***25,195.13***
Equities	20,264.78	21,605.98	21,747.91	**21,753.70**	21,754.49
Debt Securities	3,068.21	3,403.51	3,438.99	**3,440.44**	21,754.49
Other foreign assets	**80,529.25**	**80,697.15**	**74,792.88**	**75,075.01**	**92,658.58**
Trade Credits	13,577.39	7,543.19	5,704.75	**7,531.64**	16,824.56
Loans	11,925.83	13,886.51	12,489.70	**14,299.52**	14,939.57
Currency and Deposits	55,026.03	59,267.46	56,598.43	**53,243.85**	60,894.46
Reserve Assets	***34,241.54***	***28,284.82***	***26,990.58***	**39,353.49**	***42,594.84***
Liabilities	**183,336.82**	**188,876.32**	**192,673.62**	**211,707.15**	**247,136.45**
Direct investment	***86,671.23***	***89,735.40***	***94,184.14***	**97,687.14**	***99,992.29***
Portfolio investment	***59,454.99***	***61,990.19***	***63,877.88***	**72,408.65**	***85,217.29***
Equities	27,761.26	27,284.64	27,609.77	**30,534.04**	32,855.19
Debt Securities	31,693.73	34,705.55	36,268.11	**41,874.62**	52,362.10
Other Investment Liabilities	**37,210.59**	**37,150.72**	**34,611.61**	**41,611.36**	**61,926.87**
Trade Credits	-	-	-	-	-
Loans	25,887.36	25,081.49	24,462.07	**29,710.01**	49,160.08
Currency and Deposits	11,323.23	12,069.24	10,149.53	**11,901.35**	12,766.79

1/ Revised
2/ Provisional
Source: CBN

Figure 7.11: Net International Investment Position (IIP) 2014 - 2018 (US$' Million)



Source: CBN

7

EXTERNAL SECTOR DEVELOPMENTS

7.6 EXCHANGE RATE MOVEMENTS

The exchange rate remained relatively stable in 2018, at both the BDC and I&E window of the foreign exchange market, supported by the CBN's proactive exchange rate management policies.

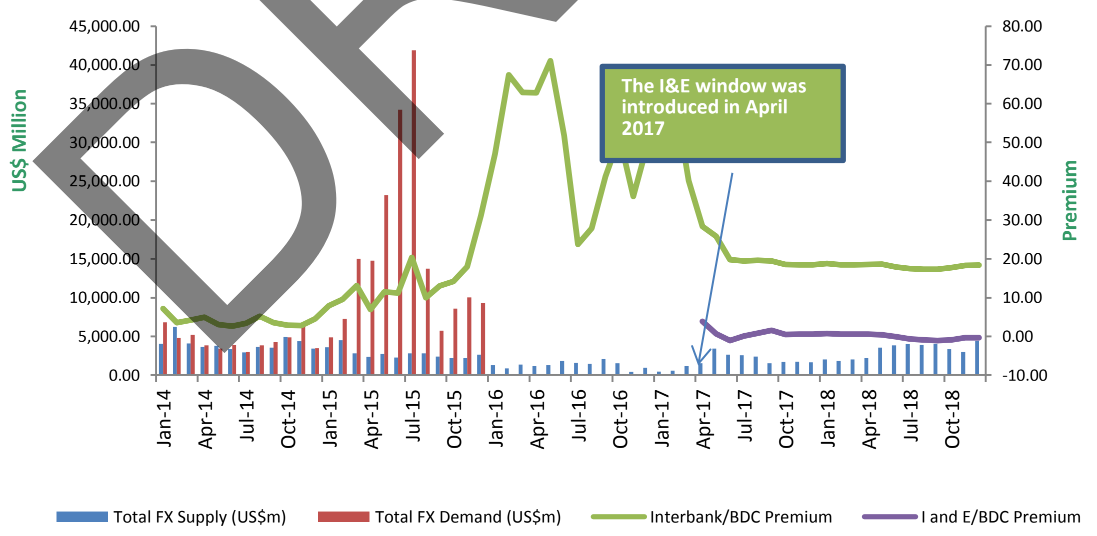
The average exchange rate of the naira at the interbank segment of the foreign exchange market, depreciated to ₦305.90/US$ in February 2018, from ₦305.31/US$ in December 2017, but appreciated to ₦305.61/US$ in April 2018. The naira, however, depreciated to an average of ₦306.06/US$, ₦306.50/US$, and ₦306.92/US$ in August, October and December 2018, respectively. The annual average exchange rate at the interbank market depreciated by 0.1 per cent to ₦306.08/US$ in 2018, compared with ₦305.79/US$ in 2017. The end-period interbank exchange rate closed at ₦307.00/US$, a depreciation of 0.3 per cent below the level in 2017.

At the BDC segment of the foreign exchange market, demand pressure intensified at the beginning of 2018, leading to the depreciation of the naira to ₦363.20/US$ in January 2018, from ₦362.83 in December 2017. The naira, however, gradually appreciated and remained stable for most part of the first three quarters, averaging ₦360.66/US$ and ₦359.00/US$, respectively, in June and August 2018. The development was as a result of the downward adjustment to the selling rate of foreign exchange to BDCs operators. A renewed demand pressure emerged in the fourth quarter of 2018, due to perceived political uncertainties in the wake of the 2019 general election. Consequently, the naira depreciated to ₦360.74/US$, ₦362.82/US$, and ₦363.46/US$, respectively, in October, November and December 2018. To boost liquidity and dampen the pressure, the CBN increased its interventions at the BDC segment to four times weekly. The annual average exchange rate at the BDC segment in 2018, appreciated by 9.4 per cent to ₦361.51/US$, compared with ₦395.42/US$ in 2017. The end-period exchange rate also appreciated by 0.6 per cent to ₦361.00/US$ in 2018, relative to ₦363.00/US$ in the preceding year.

At the "I & E" window, the exchange rate appreciated to ₦360.01/US$ in March 2018, from ₦360.68/US$ in December 2017. However, it depreciated to ₦361.06/US$ in June 2018 and further to ₦363.22/US$, ₦363.96US$ and ₦364.76US$, respectively, in September, October and December 2018. The development was, due mainly, to the capital flow reversal triggered by monetary policy normalisation in the US. The annual average exchange rate appreciated by 1.3 per cent to ₦361.96/US, compared with ₦366.58/US$ in 2017. The end-period exchange rate, however, depreciated by 1.0 per cent to ₦364.00/US$ in 2018, compared with ₦360.33/US$ in 2017.

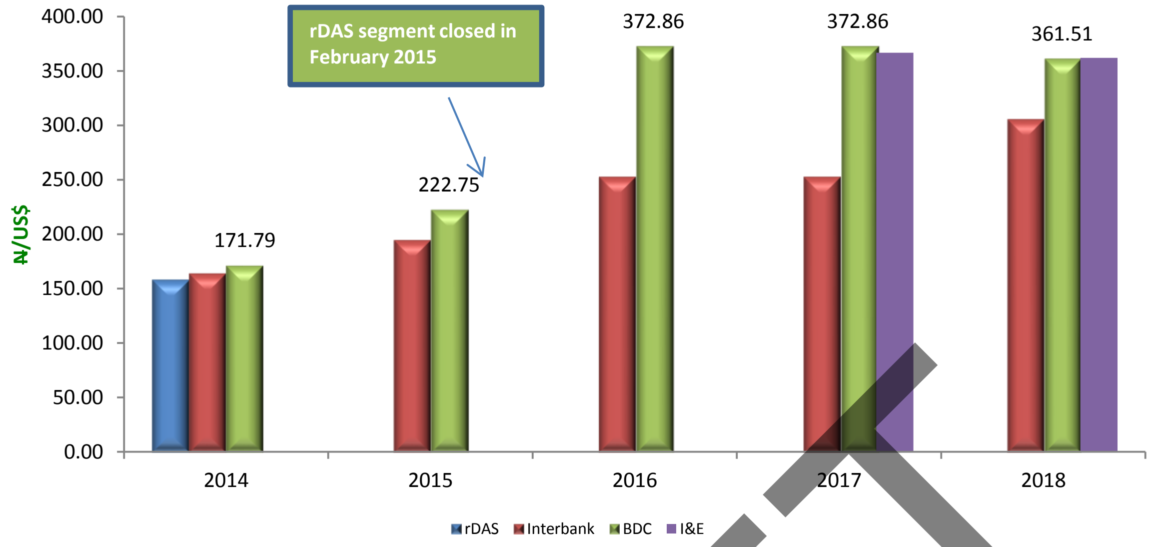
The premium between the average interbank and BDC rates narrowed to 18.1 per cent in 2018, from 29.3 per cent in 2017. Similarly, the premium between the average I&E and BDC rates narrowed to 0.1 per cent in 2018, from 7.9 per cent in 2017. The premium between the end-period interbank and BDC exchange rates was 17.6 per cent in 2018 compared with 18.6 per cent in 2017, while that between I&E and BDC rates was 0.8 per cent, compared with 0.7 per cent in 2017.

Figure 7.12: Demand and Supply of Foreign Exchange, Interbank/BDC Rate Premium and rDAS/BDC Rate Premium, 2014-2018



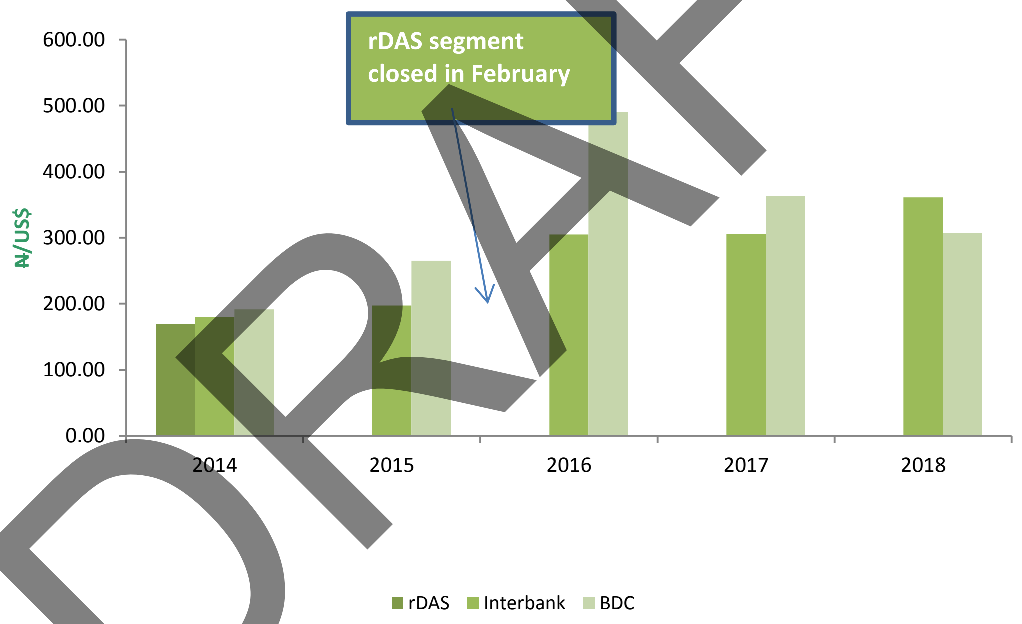
Source: CBN

Figure 7.13: Average Yearly Exchange Rate of the Naira per US Dollar, 2014 - 2018



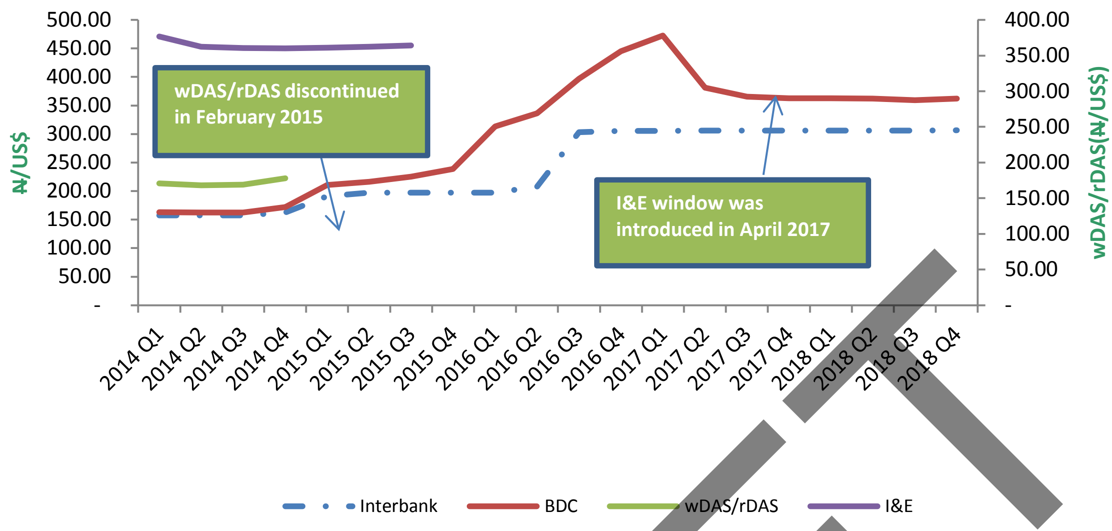
Source: CBN

Figure 7.14: End-period Exchange Rate of the Naira per US Dollar, 2014 - 2018



Source: CBN

Figure 7.15: Quarterly Average Exchange Rate of the Naira vis-à-vis US Dollar, 2014 - 2018

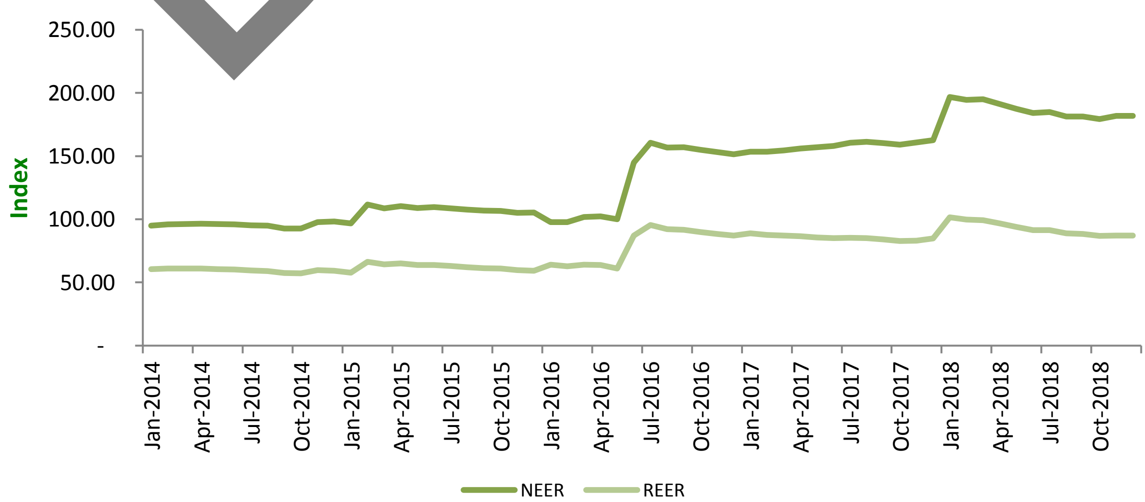


Source: CBN

7.7 THE NOMINAL AND REAL EFFECTIVE EXCHANGE RATES

The average 13-currency nominal effective exchange rate (NEER) index rose by 18.0 per cent to 186.58, above the level in 2017, indicating depreciation in the exchange rate. The average 13-currency real effective exchange rate (REER) index, rose by 8.4 per cent to 92.65, above the level in 2017. In real terms, the increase in REER implied higher inflation in the domestic economy, thus, showing loss of external competitiveness. The REER index opened at 101.42 in January 2018 and closed at 87.42 in December 2018.

Figure 7.16: Nominal and Real Effective Exchange Rate Indices, 2014 - 2018



Source: CBN

7

EXTERNAL SECTOR DEVELOPMENTS

Table 7.7: Nominal and Real Effective Exchange Rate Indices (November 2009=100)

	2017		2018		Percentage Change	
	Monthly Index 1/	Annual Average Index 1/	Monthly Index 2/	Annual Average Index 2/	Monthly Index	Annual Average Index
EER	162.66	158.07	181.68	186.58	11.69	18.03
REER	84.68	85.49	87.14	92.65	2.91	8.37

Source: CBN

1/ Revised
2/ Provisional

CHAPTER EIGHT

INTERNATIONAL AND REGIONAL INSTITUTIONS

The 2018 Spring and Annual Meetings of the Bretton Woods Institutions (BWIs) observed that risks to global growth recovery had shifted to the downside, particularly in the emerging market and developing economies, and suggested that advancing financial and structural reforms was critical to lifting potential growth and employment. At the sidelines of the Meetings, the G-24 Ministers called on the IMF and WBG to strengthen their support for domestic resource mobilisation, combating illicit financial flows and mitigating the adverse social and distributional impact of fiscal adjustment. At the continental level, the 41st Ordinary Meeting of the Assembly of Governors of the Association of African Central Banks (AACB) noted the progress report on the implementation of the African Monetary Cooperation Programme (AMCP), and observed that 18 countries out of 52 (35.0%) met all the primary convergence criteria in 2017, compared with none in 2016. At the regional level, the African Caucus Meeting of the IMF/World Bank welcomed the World Bank Group's (WBG) new regional integration strategy for sub-Saharan Africa, and looked forward to accelerating projects in the energy and agriculture sectors to promote industrialisation, diversification, and competitive exports.

8.1 THE INTERNATIONAL MONETARY SYSTEM

8.1.1 The International Monetary Fund (IMF)/World Bank Spring and Annual Meetings

The 2018 Spring and Annual Meetings of the Bretton Woods Institutions (BWIs) were held in Washington D. C., USA from April 16 – 22, 2018 and October 8 – 14, 2018, respectively. The sideline meetings included those of the International Monetary and Finance Committee (IMFC) of the Governors of the International Monetary Fund (IMF), the Development Committee (DC) of the World Bank Group, as well as the meetings of the Ministers and Governors of the Inter-Governmental Group of Twenty Four (G-24).

The G-24 Ministers:

- Noted that risks to global growth recovery had shifted to the downside, particularly in the emerging market and developing economies (EMDEs). They observed that G-24 members were managing the impact of tightening financial conditions from the ongoing monetary policy normalisation in advanced countries, especially in the US, and that a rapid shift in financial market sentiment could undermine the growth recovery. They were also concerned with the uncertainty from the trade tensions and protectionist sentiments that further clouded the growth outlook. They recognised the urgency of domestic policy actions to strengthen resilience, but underscored that multilateral actions were necessary to ensure financial stability and global growth;

- Noted that digitalisation and technological change would create additional opportunities and pose their challenges. They encouraged the IMF, other IFIs, and financial standard-setters to assess the implications of technological advances on the financial system, including crypto assets and cyber-security, and support multilateral responses;
- Observed that technology offered new opportunities to accelerate progress towards the twin goals of eradicating extreme poverty and boosting shared prosperity. The new technologies introduced new risks, including increased inequality within and between countries. They supported the role the WBG can play in helping countries find new pathways to sustainable, inclusive growth by building the foundations of the digital economy;
- Noted that strong fundamentals, sound policies, and a resilient international monetary system (IMS) were essential to the stability of exchange rates and sustainable growth, as well as, investment;
- Noted that financial and structural reforms were critical to lifting potential growth, employment, and strengthening resilience. They further committed to monitor, tackle financial vulnerabilities and emerging risks through continued regulatory cooperation;
- Recognised the need for dialogue and actions to mitigate risks and enhance confidence in international trade, including ways to improve the WTO to address current and future challenges. They pledged to continue to work for a globally fair and modern international tax system;

- Welcomed the fundamental reforms that were negotiated as part of the proposed capital package that would allow the World Bank Group (WBG) to effectively deliver development results in a financially sustainable manner;
- Welcomed the successful conclusion of the negotiations on the financial and policy package contained in the Sustainable Financing for Sustainable Development Report. The financial package includes a US$13 billion paid-in capital increase, comprising US$7.5 billion for IBRD and US$5.5 billion for IFC;
- Recognised that excessive volatility or disorderly movements in exchange rates could have adverse implications for economic and financial stability. They pledged to refrain from competitive devaluations;
- Expressed concern with rising debt vulnerabilities, urging the international financial community to strengthen its support of developing countries' effort to deal with the interrelated challenges of debt and growth;
- Called for international cooperation to foster a rule-based, open, transparent, non-discriminatory and equitable multilateral trading system, with the World Trade Organisation at its centre. They further called for international policy coordination to reduce adverse spillovers from domestic policies in advanced economies so as to limit the recurring periods of instability that disrupt growth in EMDEs;
- Called on the IMF and WBG to strengthen their support for domestic resource mobilisation, combating illicit financial flows and mitigating the adverse social and distributional impact of fiscal adjustment;
- Urged the IMF and the WBG to continue to strengthen assistance to improve domestic resource mobilisation. They stressed the importance of international tax cooperation to develop fair rules, avert harmful tax practices and competition, and enhance tax transparency. They welcomed the progress to date of the Automatic Exchange of Information Initiative and encouraged EMDEs to commit to the international standards on tax transparency;

- Urged for structural reforms to lift productivity, growth, and employment, while effectively assisting those bearing the cost of adjustment. It also stressed the importance of timely, full, and consistent implementation and finalisation of the financial sector reform agenda; and
- Reaffirmed its commitment to a strong, quota-based, and adequately resourced IMF to preserve its role at the centre of the Global Financial Safety Net (GFSN). It expressed commitment to conclude the 15th General Review of Quotas and agreed on a new quota formula as a basis for a realignment of quota shares.

8.2 REGIONAL INSTITUTIONS

8.2.1 African Caucus Meeting of the IMF/World Bank

The African Caucus, comprising African Governors of the International Monetary Fund and the World Bank Group, met in Sharm El Sheikh, the Arab Republic of Egypt from August 4 – 6, 2018. The theme of the Meeting was "Promoting Inclusive Growth through Private Investment and Access to Finance".

The Governors:

- Welcomed the objectives of the G20 Compact Africa Initiative to increase private sector investment in the continent;
- Welcomed the commitment of the International Finance Committee (IFC) to increase investment by 40.0 per cent in LICs and urged them to materialise this commitment in Africa, especially through SME financing;
- Welcomed the WBG new regional integration strategy for sub-Saharan Africa, and looked forward to accelerating and scaling up transformational projects in the energy and agriculture sectors, to promote industrialisation, diversification, and competitive exports;
- Observed that digitalisation had emerged recently as an effective tool to promote access to finance, including for women and small- and medium-sized enterprises;

- Emphasised the importance of sharing cross-country analysis and lessons from experience, tailored policy advice and technical assistance to support members in creating an appropriate set of fiscal incentives for export promotion;
- Reaffirmed that in addition to evaluating fiscal risks and putting in place strong legal and institutional frameworks, projects should be selected based on financial viability, competitive bidding, and transparency and accountability;
- Urged enhanced coordination between the WBG and country authorities to maximise the use of Financing for Development, including through the cascade approach to prioritise the financing of projects with high developmental and social impact;
- Called on the IMF and WBG to further support country efforts, including through peer-to-peer experience sharing; identifying ways to fill gaps in local capacity to optimally leverage the benefits of digitalisation, while mitigating the associated risks; and
- Reiterated the call for a third chair in the IMF Executive Board for sub-Saharan Africa. Pledged to choose the most judicious and promising policies to attract investment, including adjusting legal frameworks and streamlining procedures.

8.2.2 The 51st Session of the Economic Commission for Africa and the Annual Conference of African Ministers of Finance, Planning and Economic Development

The 51st Session of the Economic Commission for Africa (ECA) and the Annual Conference of African Ministers of Finance, Planning and Economic Development was held in Addis Ababa, Ethiopia from May 11-15, 2018. The session, which was preceded by a meeting of the Committee of Experts, was themed "African Continental Free Trade Area (AfCFTA) and Fiscal Space for Jobs and Economic Diversification", took into account the launch of the AfCFTA and the opportunities it presented for economic growth and job creation in Africa. During the session, ECA's revised strategic framework for 2018-2019 was endorsed by African Ministers of Finance, Planning and Economic Development. The Framework contains the outcome of recent

ECA reforms, the vision, overall objectives and programmatic focus on five strategic areas namely:

- Advancing ECA's position as a premier knowledge institution that builds on its unique position and privilege to drive global solutions on the continent;
- Building sustainable development solutions to accelerate Africa's economic diversification and industrialisation;
- Creating innovative solutions to finance sustainable infrastructure for transforming Africa;
- Contributing solutions to trans-boundary issues, with a focus on social inclusion; and
- Developing regional solutions as a contribution to global governance issues, and building knowledge advocacy to manage Africa's next-generation challenges.

8.2.3 41st Ordinary Meeting of the Assembly of Governors of the Association of African Central Banks (AACB)

The 41st Ordinary Meeting of the Assembly of Governors of the Association of African Central Banks (AACB) was held in Sharm El Sheikh, Egypt on August 9, 2018. The Meeting was attended by thirty-five (35) central banks and the African Union Commission (AUC). The Meeting also marked the accession of Bank Al-Maghreb to the AACB after the re-admission of Morocco into the African Union.

The Assembly of Governors:

- Adopted the report of the AACB symposium, held on August 15, 2017, in Pretoria, South Africa;
- Adopted the report of the 40th Ordinary Meeting of the AACB Assembly of Governors, held on August 16, 2017, in Pretoria, South Africa, as a fair reflection of the deliberations of the Meeting;
- Noted the list of decisions of the Bureau Meeting held in Dakar, Senegal, on February 23, 2018;
- Noted the presentation by the AUC commissioner regarding progress report on the establishment of the African Central Bank (ACB) for which a report was received after the conclusion of the Bureau Meeting;

- Review the progress report on the implementation of the African Monetary Cooperation Programme (AMCP) in 2017 and noted also, that 18 countries out of 52 (35%) met all the primary convergence criteria in 2017, compared with none in 2016, before the refinement of the convergence criteria;
- Approved the Report on the Monitoring Framework and a Peer Review Mechanism for Macroeconomic Convergence;
- Noted the activities of the Community of African Banking Supervisors (CABS), including the activities of the working groups on "Cross-Border Banking Supervision" and "Crisis Management and Bank Resolution". The Meeting also noted the handing-over of the CABS chairmanship to the Central Bank of Egypt, and expressed appreciation to AACB partners;
- Requested that CABS gives attention to the issues of de-risking, particularly the decline in correspondent banking, and made proposals on options to be pursued at the continental level to address the problem;
- Approved the proposal to explore the Integration of the payments systems on the continent;
- Approved the theme for the 2019 symposium as "Rising African Sovereign Debt: Implications for Monetary Policy and Financial Stability". The Assembly also selected the 2019 continental seminar topic: "Renewed Protectionist Tendencies: Some Implications for Macroeconomic Policy in Africa"; and approved that the event be hosted by the Bank of Mauritius; and
- Noted the transmission of a hand-over report on the status of AACB's activities by the outgoing chairperson to the incoming chairperson.

8.3 SUB-REGIONAL INSTITUTIONS

8.3.1 36th Meeting of the WAMZ Committee of Governors

The 36th Meeting of the Committee of Governors (CoG) of the West African Monetary Zone (WAMZ) was held at Kairaba Beach Hotel, Banjul, The Gambia, on February 8, 2018. The Meeting reviewed the status of implementation of the WAMZ Work Programme, based on the report of the Technical Committee of the WAMZ.

The CoG:

- Reviewed the Report on Macroeconomic Developments and Convergence in the WAMZ at end-June 2017 and urged Member States to improve on their performance on the convergence criteria;
- Urged Member States, in collaboration with the West African Monetary Institute (WAMI), to make greater efforts towards statistical harmonisation for improved data quality;
- Directed the WAMI to coordinate the interlinking of the Payments Systems Project, convene a meeting of the Zonal Payments System Committee and collaborate with the Member States, to revive the National Payments Systems Committees;
- Directed WAMI to review and update the Exchange Rate Mechanism (ERM) in view of the operationalisation of the Scheme on quoting and trading in the Zone;
- Directed WAMI to strengthen efforts and encourage member countries to quote and trade in the WAMZ Member States' currencies;
- Urged the West African Securities Regulators Association (WASRA) to approve phases I and II of the integration of the capital markets in ECOWAS;
- Approved and adopted the Internal Audit Charter of WAMI and the requirement for the submission of report to the Chairman of the Committee of Governors semi-annually; and
- Approved WAMI's Work Programme and Budget for 2018.

8.3.2 51st Meeting of Committee of Governors of ECOWAS Member Central Banks

The 51st Ordinary Meeting of the Committee of Governors of Central Banks of ECOWAS Member States was held at Kairaba Beach Hotel, Banjul, The Gambia on February 9, 2018. The Meeting was preceded by the 32nd

Meeting of the Technical Committee held from February 1 - 3, 2018. The Meeting was chaired by Mr. Bakary Jammeh, Governor, Central Bank of The Gambia.

The CoG approved the:

- Recommendations of the Report on the ECOWAS Monetary Cooperation Programme for the First Half of 2017;
- Recommendations of the Report on the Development of a Composite Index of Financial Stability in ECOWAS Member States;
- Report on Construction of a Macroeconomic Convergence Index for ECOWAS Member States;
- Recommendations of the Technical Committee on the Study: "Estimation of Optimal Inflation Threshold for ECOWAS Member Countries";
- WAMA Information Technology Policies and Procedures; and
- WAMA 2018 Work Programme and Budget.

8.3.3 39th Meeting of the Convergence Council of Ministers and Governors of Central Banks of the WAMZ

The 39th Meeting of the Convergence Council of Ministers and Governors of the Central Banks of the West African Monetary Zone (WAMZ) was held at the Kairaba Beach Hotel, Banjul, The Gambia, on February 9, 2018, to review the status of implementation of the WAMZ Work Programme. The Report of the 36th Meeting of the Committee of Governors formed the basis for the meeting. The Meeting was chaired by the Minister of Finance of The Gambia. The report and recommendations of the Meeting of the Committee of Governors of the WAMZ were considered and approved by the Convergence Council.

8.3.4 The 5th Meeting of the Presidential Task Force on the ECOWAS Single Currency Programme

The 5th Meeting of the Presidential Task Force on the ECOWAS Single Currency Programme was held in Accra, Ghana from February 17 -21, 2018.

The Meeting was a follow-up on the 4th meeting of the Task Force, which directed the Ministerial Committee to revise the new roadmap and propose measures to fast-track the process of creating the ECOWAS single currency by 2020.

The Meeting was chaired by the President of the Republic of Ghana, Nana Addo Dankwa AKUFO-ADDO. The Republic of Niger, Cote d'Ivoire, Togo and current President of the Conference of Heads of State and Government of ECOWAS, and President of the Republic of Guinea also attended the meeting. Mr. Godwin I. Emefiele, Governor, Central Bank of Nigeria, represented the President of the Federal Republic of Nigeria.

The purpose of the Meeting was to review the revised draft roadmap for the ECOWAS Single Currency Programme, as well as, the status of implementation of the roadmap activities.

The Meeting:

- Agreed that the Presidential Task Force on the ECOWAS Single Currency Programme should hold quarterly meetings to assess the progress made in the implementation of planned activities of the roadmap;

- Directed the ECOWAS Commission to submit detailed reports on progress and challenges in the implementation of the Programme, as well as, measures adopted for ensuring compliance with the 2020 deadline to the Authority of Heads of State and Government during its biannual sessions; and
- Directed the Ministerial Committee to hold a meeting within three months to draft a proposal on the creation of a special fund to ensure adequate funding for the implementation of the roadmap activities, as well as, modalities for its replenishment. In addition, the Committee would also prepare clear proposals on the measures to strengthen the technical capacity of WAMA.

8.3.5 Regional Meeting of Monetary and Exchange Rate Policy Experts on the Choice of a Single Monetary Policy Framework for the Future ECOWAS Monetary Zone

A regional meeting of Monetary and Exchange Rate Policy Experts on the choice of a single monetary policy framework and exchange rate regime for the proposed ECOWAS monetary zone was held in Abuja, Nigeria from June 4-7, 2018. The Meeting was convened as part of the process of determining the exchange rate regime and monetary policy framework for the prospective ECOWAS single monetary zone. The Committee reviewed various technical presentations and recommended:

- The adoption of ERM for the sub-region should be preceded by the delinking of CFA from the Euro and allowing reasonable time to ascertain the vulnerability of the economies and their currencies to external shocks and exchange rate pass through;
- The CBN Management should also consider advocating for a flexible exchange rate for the sub-region since it is consistent with Nigeria's current exchange rate regime and allows for the realignment of the exchange rate with external changes in the macroeconomic environment;

- The need for monetary policy framework that is effective in absorbing shocks in the economies of the sub-region, and suitable for a flexible exchange rate mechanism; and
- Monetary policy framework for the sub-region should also factor in the imperative of ensuring price stability conducive to economic growth.

8.3.6 Sub-Committee on Monetary and Exchange Rate Policy

The Sub-committee meeting on Monetary and Exchange Rate Policy in ECOWAS was held in Lome, Togo from July 10 – 12, 2018. The sub-committee comprises the Central Bank of Nigeria, Central Bank of West African States (BCEAO) and the West African Monetary Agency (WAMA). The Sub-committee was tasked with the responsibility of determining the choice of an appropriate monetary policy framework and exchange rate regime for the future ECOWAS Central Bank. The Sub-committee examined the study on the Choice of Exchange Rate Regime and the Macroeconomic and Structural Characteristics of the ECOWAS Member States prepared by WAMA and made the following recommendations to the Committee of Governors:

- WAMA should evaluate the options for an exchange rate regime (fixed peg to a single currency, peg to a basket of currencies, managed floating), by conducting a more detailed study. The study would outline the advantages and disadvantages of each regime, thresholds that need to be achieved, the extent each country has achieved such criteria and related issues; and
- WAMA should make proposals on the type of central bank model to be adopted for ECOWAS.

8.3.7 Afreximbank Annual Meeting

The Afreximbank Annual Meetings took place from July 11 – 14, 2018 at the Transcorp Hilton in Abuja, Nigeria, with the theme: "Celebrating the Past: Shaping the Future". The event coincided with the 25th Anniversary of AfreximBank in being at the forefront of promoting trade in Africa. The

Meeting discussed the future of trade and economic development across the continent, including the anticipated impact of the recently announced.

The four-day event featured high-level strategic seminars and the discussions centered on:

- How Africa can work with development partners to harness innovation and technology to achieve and accelerate trade, real growth, and transformation;
- How Africa can develop key options and strategies to propel the continent on a sustainable development plan, given that the continent is recovering well from the last commodities price shock; and
- The opportunities derivable from the AfCFTA.

The series of events ended with the Annual Meeting of the Bank's shareholders as well as a meeting of Afreximbank Advisory Group on Trade Finance and Export Development in Africa.

8.3.8 6th Meeting of the Presidential Task Force on the ECOWAS Single Currency Programme

The 6th Meeting of the Presidential Task Force (PTF) on the ECOWAS Single Currency Programme was held in Lome, Togo on July 30, 2018, at the sideline of the Summit of the ECOWAS Heads of State and Government. The Meeting was preceded by the 7th Meeting of the Preparatory Technical Committee from July 18 – 19, 2018, and the 3rd Meeting of the Ministerial Committee in Niamey, Niger, from July 20 - 21, 2018. The PTF reviewed the Report of the Ministerial Committee on the following:

- Status of implementation of the revised roadmap for the ECOWAS Single Currency Programme;
- Draft regulation establishing the special fund for financing the implementation of activities of the revised roadmap for the ECOWAS Single Currency Progamme;

- Validation of the report of the study on: "The ECOWAS Single Currency: Assessment of Achievements and Proposals of Criteria/Options of Attaining the 2020 deadline"; and
- ECOWAS Macroeconomic Convergence Report at end-December 2017.

8.3.9 The 2018 Mid-Year Statutory Meetings of the West African Monetary Zone (WAMZ)

The 2018 Mid-Year Statutory Meetings of the WAMA and the WAIFEM was held in Abuja, Nigeria from September 6 – 14, 2018. A sub-committee was tasked by the Committee of Governors of ECOWAS Member States with the responsibility of determining the choice of an appropriate monetary policy framework and exchange rate regime for the proposed ECOWAS Central Bank.

The CoG:

- Reviewed various activities carried out by WAMA during the first half of 2018;
- Reviewed developments in ECOWAS member states and made recommendations;
- Reviewed macroeconomic developments in the ECOWAS and provided an update on the status of convergence in 2017;
- Reviewed developments in the exchange rates of the major international and national currencies of ECOWAS against the WAUA, as well as, bilateral trends;
- Provided an update on the status of financial sector developments and stability in ECOWAS for 2017;
- Reviewed the transformation of WAMA into the EcMI, based on the various recommendations made by the Technical Committee at their Extraordinary Meeting held in Freetown from May 7 – 9, 2018; and
- Reviewed the Presentation made on the Articles of Agreement which forms part of the requisite legal framework for the establishment of the EcMI.

In addition, the following agencies presented reports:

- External Auditors, KPMG Sierra Leone, presented the report of their audit exercise on the Financial Statements for the year ended December 31, 2017;
- African Development Bank (AfDB) made a presentation on the Regional Integration Strategic Framework (RISF) covering the period 2019 – 2025; and
- Also, AfDB provided information on ongoing consultations with stakeholders with the intention of collating technical and financial needs to provide the basis for development of a comprehensive programme that is expected to be rolled out by 2019.

8.4 BILATERAL RELATIONS

8.4.1 The 4th Session of the Nigeria-Botswana Joint Permanent Commission for Cooperation

The 4th Session of the Nigeria-Botswana Joint Permanent Commission for Cooperation (TPCC) was held at the Rotunda Hall, Ministry of Foreign Affairs, Abuja, Nigeria, from October 15-17, 2018. The Meeting was co-chaired by the Permanent Secretary, the Ministry of Foreign Affairs (MFA), and his counterpart from the Republic of Botswana, the Deputy Permanent Secretary, Ministry of International Affairs and Cooperation of Botswana. Both countries acknowledged the existing bilateral relationship between the two countries and the need to deepen cooperation on multiple fronts with regards to economic, political, socio-cultural aspects of developments in agreements with the principles of the African Union (AU).

The Meeting deliberated on a number of thematic issues which included the following:

- Political, diplomatic, legal and defence cooperation;
- Economic cooperation; and
- Socio-cultural cooperation.

Furthermore, the Meeting reviewed the economic partnership agreement between the two countries, to align it with the current developmental needs and priorities of the respective countries. They also acknowledged that the scope of cooperation be broadened from the economic and technical to include other areas such as socio-cultural, human resources and manpower development, diplomatic, legal and defense cooperation.

The following resolutions were made:

- That the Ministries of Foreign Affairs of both countries should ensure biennial convening of the JPCC and its commitments;
- The two countries agreed to enhance cooperation in the areas of defense, trade and investment, agriculture, mutual legal assistance and combating corruption;
- Exchanges of experiences and expertise in mutual exploitation of mineral resources, education, medicine and public health, tourism, youth and sports development, women, children, persons with disabilities and vulnerable groups.

The Meeting ended with the signing of a memorandum of understanding (MoU) on cultural matters by both countries.

8.4.2 The 3rd Meeting of Philippines-Nigeria Joint Commission

The 3rd Meeting of the Philippines-Nigeria Joint Commission for Cooperation was held in Manila, Philippines on August 15, 2018. In attendance were delegations from Ministry of Foreign Affairs, Nigeria and Ministry of Foreign Affairs, Philippines. The delegations welcomed the strengthening of bilateral relations as demonstrated by the increased people-to-people exchanges between the two countries in the last few years.

The Meeting:

- Acknowledged the importance of convening regular consultations to review all aspects of bilateral relations and discussed a broad range of issues of mutual interest and concern;
- Expressed readiness to explore other avenues of cooperation to strengthen existing ties;

- Acknowledged several initiatives for collaboration in various sectors such as agriculture, aquaculture, trade, youth development, and technical vocational training, among others;
- Suggested breaking down the existing agreements into thematic areas for ease of monitoring and implementation;
- Noted Phillipines keen interest in engaging with Nigeria in aquaculture and fisheries sector, particularly in acquiring pure genetic strains of certain species;
- Recognised that food security is a shared concern and, as such, guaranteed to relay the Philippines proposal to concerned authorities;

The Nigerian delegation:

- Informed the Meet6ing that the country was undertaking a diversification of its economy, with agriculture being developed as a key sector to address unemployment;
- Suggested that the Nigerian embassy in Manila should visit the Agricultural Training Institute of the Philippines to obtain more information on livestock and fisheries extension training programmes;
- Proposed cooperation in the field of education; including technical and vocational training;
- Recognised the need for increased engagement between the business communities of the two countries by means of a business forum; and
- Suggested that the Philippines should consider buying/purchasing of Nigerian crude oil;

The Filipino delegation:

- Proposed opportunities to be explored in the area of tourism; with both delegations expressing readiness to collaborate in medical sector; and
- Expressed appreciation to the Nigerian Government for facilitating the release of the five Filipino crew members of the MT Asteris, who were sentenced to a five year imprisonment for oil bunkering in 2015.

Appendix A
FINANCIAL STATEMENTS

CENTRAL BANK OF NIGERIA

CORPORATE INFORMATION

Directors

Executives:

Mr. Godwin I. Emefiele (CON)	- Governor
Dr. Sarah O. Alade (OON)- Retired 22 March 2017	- Deputy Governor (Economic Policy Directorate)
Mr. Adebayo A. Adelabu	- Deputy Governor (Operations Directorate)
Alhaji Suleiman Barau (OON)- Retired 12 December 2017	- Deputy Governor (Corporate Services Directorate)
Dr. Okwu J. Nnanna	- Deputy Governor (Financial System Stability Directorate)

Corporate Secretary

Alice A. Karau
Central Bank of Nigeria
Abuja

Auditors

Ernst & Young
UBA House, 10th & 13th Floors
57 Marina, Lagos

KPMG Professional Services
KPMG Tower
Bishop Aboyade Cole Street
Victoria Island
Lagos
www.kpmg.com/ng

Head Office

Central Bank of Nigeria
Plot 33, Abubakar Tafawa Balewa Way
Central Business District
Cadastral Zone
Abuja
Federal Capital Territory
Nigeria

CENTRAL BANK OF NIGERIA
CONSOLIDATED AND SEPARATE INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

		Group		Bank	
		2017	2016	2017	2016
	Notes	N'million	N'million	N'million	N'million
Interest and similar income	5	685,608	754,094	673,217	752,443
Interest and similar expense	6	(1,344,862)	(459,304)	(1,342,961)	(458,002)
Net interest (expense)/ income		**(659,254)**	**294,790**	**(669,744)**	**294,441**
Fees and commission income	7	41,368	30,212	41,311	29,964
Net fair value loss on financial instruments	8	(51,335)	(478,223)	(51,335)	(478,223)
Other operating income	9	1,457,958	898,280	1,450,535	893,400
Total operating Income		**788,736**	**745,059**	**770,767**	**739,582**
Loan impairment charge	15	(347,012)	(72,933)	(347,012)	(72,933)
Impairment charge on financial investments	16	(23,297)	(11,776)	(23,297)	(11,776)
Net operating income		**418,427**	**660,350**	**400,458**	**654,873**
Personnel expenses	11	(135,195)	(121,229)	(129,533)	(117,448)
Financial sector intervention expenses	12	-	(226,403)	-	(226,403)
Depreciation of property, plant and equipment	27	(22,573)	(12,459)	(18,334)	(10,236)
Amortisation of intangible assets	26	(1,371)	(743)	(1,371)	(743)
Currency issue expenses	13	(13,450)	(14,440)	(58,604)	(43,790)
Other operating expenses	14	(155,054)	(173,610)	(122,450)	(151,322)
Total operating expenses		**(327,643)**	**(548,884)**	**(330,292)**	**(549,942)**
Net income before share of associates' profit		**90,784**	**111,466**	**70,166**	**104,931**
Share of profit of associates	24	18,386	13,894	-	-
Net income before tax		**109,170**	**125,360**	**70,166**	**104,931**
Income tax expense	17	(1,773)	(890)	-	-
Net income for the year		**107,397**	**124,470**	**70,166**	**104,931**
Attributable to:					
Equity holder of the Bank		106,013	124,735	70,166	104,931
Non-controlling interests		1,384	(265)	-	-
		107,397	124,470	70,166	104,931

The accompanying notes to the consolidated and separate financial statements form an integral part of these consolidated and separate financial statements.

CENTRAL BANK OF NIGERIA
CONSOLIDATED AND SEPARATE STATEMENTS OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

		Group		Bank	
		2017	2016	2017	2016
	Notes	N'million	N'million	N'million	N'million
Net income for the year		**107,397**	**124,470**	**70,166**	**104,931**
Other comprehensive income					
Other comprehensive income to be reclassified to income or loss in subsequent periods net of tax:					
Net gain on available-for-sale financial assets	10,22b	6,347	1,437	6,347	1,437
Share of other comprehensive income of associates	24	34,584	63,512	-	-
Net other comprehensive income to be reclassified to net income or loss in subsequent periods		**40,931**	**64,949**	**6,347**	**1,437**
Other comprehensive income/(loss) not to be reclassified to income or loss in subsequent periods net of tax:					
Re-measurement gains on defined benefit plans	17, 31	31,924	24,126	31,924	23,860
Net other comprehensive income not to be reclassified to income or loss in subsequent periods		**31,924**	**24,126**	**31,924**	**23,860**
Other comprehensive income for the year		**72,855**	**89,075**	**38,271**	**25,297**
Total comprehensive income for the year		**180,252**	**213,545**	**108,437**	**130,228**
Attributable to:					
Equity holder of the Bank		178,868	213,782	108,437	130,228
Non-controlling interests		1,384	(237)	-	-
		180,252	**213,545**	**108,437**	**130,228**

The accompanying notes to the consolidated and separate financial statements form an integral part of these consolidated and separate financial statements.

CENTRAL BANK OF NIGERIA
CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

		Group		Bank	
		2017	**2016**	**2017**	**2016**
	Notes	**N'million**	**N'million**	**N'million**	**N'million**
Assets					
Cash and bank balances	18e	28,197	18,123	-	-
External reserves	18	14,563,696	8,351,643	14,563,696	8,351,643
IMF Holdings of Special Drawing Rights	19a	650,824	611,930	650,824	611,930
Loans and receivables	20	10,285,433	8,017,762	10,369,678	8,091,031
Financial assets at fair value through profit or loss	21	-	13,554	-	13,554
Investment securities:					
Available-for-sale	22a,b	50,669	43,514	50,669	43,514
Held to maturity	22c	2,062,360	2,158,310	1,965,705	2,064,919
Investments in subsidiaries	23	-	-	28,098	43,282
Investments in associates	24	271,367	225,995	91,966	91,966
Quota in International Monetary Fund (IMF)	19b	1,002,558	683,175	1,002,558	683,175
Other assets	25	153,346	1,280,784	140,461	1,273,456
Intangible assets	26	3,405	4,990	3,405	4,990
Property, plant and equipment	27	516,515	505,080	446,531	433,423
Total assets		**29,588,371**	**21,914,860**	**29,313,591**	**21,706,883**
Liabilities					
Bank notes and coins in circulation	30	2,140,673	2,171,951	2,156,289	2,178,233
Deposits	28	12,466,903	11,228,524	12,466,903	11,228,524
Central Bank of Nigeria Instruments issued	29	8,919,793	5,106,026	8,919,793	5,106,026
IMF allocation of Special Drawing Rights	19d	727,153	683,603	727,153	683,603
IMF related liabilities	19c	954,121	634,738	954,121	634,738
Financial liabilities at fair value through profit or loss	21	-	282,925	-	282,925
Employee benefit liabilities	31	103,540	116,931	103,616	117,047
Current income tax payable	17a	1,810	1,476	-	-
Deferred tax liabilities	17b	5,598	5,015	-	-
Other liabilities	32	3,449,558	988,567	3,411,843	954,218
Total liabilities		**28,769,149**	**21,219,756**	**28,739,718**	**21,185,314**
Equity					
Share capital	33	5,000	5,000	5,000	5,000
Retained earnings	33	638,488	556,684	524,697	478,740
Available-for-sale reserve	33	47,006	39,350	44,176	37,829
Foreign currency translation reserve	33	121,153	87,879	-	-
Equity attributable to equity holders of the Bank		**811,647**	**688,913**	**573,873**	**521,569**
Non-controlling interests		7,575	6,191	-	-
Total equity		**819,222**	**695,104**	**573,873**	**521,569**
Total liabilities and equity		**29,588,371**	**21,914,860**	**29,313,591**	**21,706,883**

The accompanying notes to the consolidated and separate financial statements form an integral part of these consolidated and separate financial statements.

The consolidated and separate financial statements were approved and authorised for issue by the Committee of Governors on 21 March 2018 and were approved for signature by the President of the Federal Republic of Nigeria.

	Godwin I. Emefiele (CON) FRC/2013/IODN/00000001080	Governor
	Dr. Okwu J. Nnanna FRC/2015/ICENNIG/00000011557	Deputy Governor

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CENTRAL BANK OF NIGERIA
CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

GROUP

	Attributable to the equity holder of the Bank						
	Share capital N'million	Retained earnings N'million	Available-for-sale reserve N'million	Foreign currency translation reserve N'million	Total N'million	Non-controlling interests N'million	Total equity N'million
As at 1 January 2017	**5,000**	**556,684**	**39,350**	**87,879**	**688,913**	**6,191**	**695,104**
Net income for the year	-	106,013	-	-	106,013	1,384	107,397
Other comprehensive income:							
Change in fair value of available-for-sale financial assets	-	-	6,347	-	6,347	-	6,347
Re-measurement gains on defined benefit plans (Note 31)	-	31,924	-	-	31,924	-	31,924
Share of other comprehensive income of associates	-	-	1,309	33,274	34,583	-	34,583
Total comprehensive income	**-**	**137,937**	**7,656**	**33,274**	**178,867**	**1,384**	**180,251**
Transfer to the Federal Government of Nigeria (Note 32a)	-	(56,133)	-	-	(56,133)	-	(56,133)
As at 31 December 2017	**5,000**	**638,488**	**47,006**	**121,153**	**811,647**	**7,575**	**819,222**

For the year ended 31 December 2016

	Attributable to the equity holder of the Bank						
	Share capital N'million	Retained earnings N'million	Available-for-sale reserve N'million	Foreign currency translation reserve N'million	Total N'million	Non-controlling interests N'million	Total equity N'million
As at 1 January 2016	**5,000**	**491,795**	**38,984**	**23,296**	**559,075**	**6,428**	**565,503**
Net income/(loss) for the year	-	124,735	-	-	124,735	(265)	124,470
Other comprehensive income:							
Change in fair value of available-for-sale financial assets	-	-	1,437	-	1,437	-	1,437
Re-measurement loss on defined benefit plans net of tax (Note 17 and 31)	-	24,098	-	-	24,098	28	24,126
Share of other comprehensive income/(loss) of associates	-	-	(1,071)	64,583	63,512	-	63,512
Total comprehensive income/(loss)	**-**	**148,833**	**366**	**64,583**	**213,782**	**(237)**	**213,545**
Transfer to the Federal Government of Nigeria (Note 32a)	-	(83,944)	-	-	(83,944)	-	(83,944)
As at 31 December 2016	**5,000**	**556,684**	**39,350**	**87,879**	**688,913**	**6,191**	**695,104**

The accompanying notes to the consolidated and separate financial statements form an integral part of these consolidated and separate financial statements.

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CENTRAL BANK OF NIGERIA
CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY- CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2017

BANK

	Share capital N'million	Retained earnings N'million	Available-for-sale reserve N'million	Total equity N'million
As at 1 January 2017	5,000	478,740	37,829	521,569
Net income for the year	-	70,166	-	70,166
Other comprehensive income:				
Change in fair value of available-for-sale financial assets	-	-	6,347	6,347
Remeasurement gains on defined benefit plans net of tax (Note 31)	-	31,924	-	31,924
Total comprehensive income	-	102,090	6,347	108,437
Transfer to Federal Government of Nigeria (Note 32a)	-	(56,133)	-	(56,133)
As at 31 December 2017	5,000	524,697	44,176	573,873

For the year ended 31 December 2016

	Share capital N'million	Retained earnings N'million	Available-for-sale reserve N'million	Total equity N'million
As at 1 January 2016	5,000	433,893	36,392	475,285
Net income for the year	-	104,931	-	104,931
Other comprehensive income:				
Change in fair value of available-for-sale financial assets	-	-	1,437	1,437
Re-measurement losses on defined benefit plans net of tax (Note 31)	-	23,860	-	23,860
Total comprehensive income	-	128,791	1,437	130,228
Transfer to the Federal Government of Nigeria (Note 32a)	-	(83,944)	-	(83,944)
As at 31 December 2016	5,000	478,740	37,829	521,569

The accompanying notes to the consolidated and separate financial statements form an integral part of these consolidated and separate financial statements.

CENTRAL BANK OF NIGERIA
CONSOLIDATED AND SEPARATE STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

		Group		Bank	
		2017	2016	2017	2016
	Notes	N'million	N'million	N'million	N'million
Cash flows used in operating activities	34	**3,555,728**	**2,754,493**	**3,537,794**	**2,728,569**
Income tax paid	17a	(856)	(81)	-	-
Employee defined benefit paid	31	(10,666)	(12,539)	(10,666)	(12,525)
Net cash flows from operating activities		**3,544,206**	**2,741,873**	**3,527,128**	**2,716,044**
Cash flows from investing activities					
Sale/(purchase) of investment securities		95,950	(1,364,404)	99,214	(1,328,558)
Purchase of Intangible assets	26	(390)	(679)	(390)	(679)
Purchase of property, plant and equipment	27	(34,926)	(43,476)	(32,354)	(33,637)
Proceeds from sale of property, plant and equipment		735	1,468	729	989
Net cash flows from/(used in) investing activities		**61,369**	**(1,407,091)**	**67,199**	**(1,361,885)**
Cash flows from financing activities					
Surplus paid to the Federal Government of Nigeria	32a	(83,944)	(86,824)	(83,944)	(86,824)
Net cash flows used in financing activities		**(83,944)**	**(86,824)**	**(83,944)**	**(86,824)**
Net change in cash and cash equivalents		3,521,631	1,247,958	3,510,383	1,267,334
Net foreign exchange difference on cash and cash eqivalents		1,341,533	1,165,284	1,341,429	1,167,883
Cash and cash equivalents at 1 January	18e	6,220,478	3,807,236	6,203,632	3,768,415
Cash and cash equivalents at 31 December	18e	**11,083,642**	**6,220,478**	**11,055,444**	**6,203,632**

The accompanying notes to the consolidated and separate financial statements form an integral part of these consolidated and separate financial statements.

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Appendix B

GLOSSARY OF SELECTED TERMS

Approval in Principle: This refers to the granting of an initial permit/permission to any financial institution, pending the time it would meet the necessary requirements for operations to qualify it for a formal licence.

Balance of Payments (BOP): These are records of economic transactions between the residents of a country and the rest of the world during a given period of time. The major components of a BOP are the ***current account, the capital and financial account, and the official settlement balance***. The current account comprises transactions arising from the sale or purchase of goods and services and unrequited transfers, while the capital and financial account is the record of assets and financial transactions. The official settlement account is used to equalise any imbalance that may exist in the current and capital accounts, so that all the BOP accounts sum to zero.

Balance of Payments Position: see ***Foreign Exchange and Balance of Payments Position***

Bank Credit is a major determinant of the money supply and is the amount of loans and advances given by the CBN, as well as deposit money banks to economic agents. This is the banking system credit to the economy which can be broken down into bank credit to government (net) and the private sector.

Capital Expenditure: Payment for non-financial assets used in the production process for more than one year. Loan amortisation (capital repayment) is included.

Cost of Capital is the cost incurred in securing funds or capital for productive purposes. The cost includes interest rate, legal, administrative and information search charges. This means that the cost of capital is likely to be greater than or equal to interest rates on loans.

Cost of Funds: This refers to net expenses incurred in raising funds, including a reasonable profit margin. The expenses include the interest on deposits, reserve requirements and other administrative expenses, as a proportion of total funds borrowed.

Credit Risk: Credit risk arises from the potential that an obligor is either unwilling to perform an obligation, or its ability to perform such an obligation is impaired, resulting in a loss to the Bank. In addition to direct accounting loss, credit risk should be viewed in the context of other economic exposures, including opportunity costs, transaction costs, and expenses associated with non-performing assets over and above the accounting loss.

Debentures are fixed interest-bearing securities. They are usually of two types, debenture with a floating charge and debenture with a fixed charge. Debenture holders are creditors to the company rather than owners.

Debt Stock/GDP: This measures the level of domestic indebtedness relative to the country's economic activity.

Discount House is a financial institution devoted to trading in government instruments (treasury bills, bonds, certificates, and other eligible instruments). ***Distressed Banks***: These are banks with problems relating to illiquidity, poor earnings, and non-performing assets. The extreme case of distress is referred to as insolvency, which implies that a bank's liabilities are more than its assets.

Dutch Auction System (DAS): This is a method of exchange rate determination, through auction, where the bidders pay according to their bid rates. The ruling rate is arrived at with the last bid rate that clears the market where the authorities elect to operate a single exchange rate.

Equity Price Risk: Equity price risk is the risk to earnings or capital resulting from adverse changes in the value of the equity-related portfolios of a financial institution. The price risk could relate to changes in the overall level of equity prices or price volatility that is determined by firm specific characteristics.

Exchange Rate: This is the price of one currency in terms of another.

APPENDIX B

CTED TERMS

External Assets: These are the reserves held by the monetary authorities, as well as the banking and non-bank public, in foreign countries. Thus, external assets comprise the external reserves and the private sector holdings of foreign exchange.

External Reserves: These are portions of foreign exchange receipts saved by the monetary authorities for the purpose of enhancing the creditworthiness of the economy, protecting the international value of the domestic currency, and financing temporary shocks in the balance of payments. Reserves are held in the form of monetary gold, the reserve position at the International Monetary Fund (IMF), Special Drawing Rights (SDRs), and foreign bank balances.

Federation Account: This is an account opened by the Federal Republic of Nigeria into which all revenues of the Federation are paid for eventual distribution to all tiers of government in Nigeria.

Fiscal Deficit refers to the excess of expenditure over revenue of government. It is usually assessed by its size in relation to the nominal Gross Domestic Product (GDP). The fiscal deficits may be financed in various ways – external borrowing and internal borrowing (banking system and non-bank public). It is inflationary when financed by the banking system, especially the central banks.

Fiscal Operations: This refers to government financial transactions involving the collection, spending and borrowing of government for a given period.

Fixed Deposit Rate: When deposits are for a fixed period of time, say, 90 or 180 days, the interest rates paid are called fixed deposit rates. They normally attract higher interest rates; early withdrawals may attract penalties in terms of forfeiture of interest income.

Foreign Exchange: This is a means of international payments. It includes the currencies of other countries that are freely acceptable in effecting international transactions.

Foreign Exchange and Balance of Payments Position: The foreign exchange position is the difference between foreign exchange receipts and foreign exchange disbursements. If receipts are higher than disbursements, there is a net inflow or an accretion to reserves. On the other hand, if receipts are lower, there is a net outflow and the reserves would be depleted. The balance of payments position is the difference between the receipts by the residents of one economy from the rest of the world and the payments by these residents to the rest of the world. An excess of receipts over payments shows a balance of payments surplus, while the reverse represents a deficit. When foreign exchange receipts and payments are adjusted for valuation changes in reserves, the net position would be identical to the balance of payments position.

Foreign Exchange Risk: Foreign exchange risk is the current or prospective risk to earnings and capital arising from adverse movements in currency exchange rates. Foreign exchange risk may also arise as a result of exposures of banks to interest rate risk arising from the maturity mismatch of foreign currency positions.

Government Expenditure: Payment or flow of financial resources out of government.

High-powered Money: *see* ***Monetary Base***

Interbank Interest Rate: This is the rate that applies to transactions among banks, mostly for overnight and other short-term funds.

Interest Rate is the price of money. It is the opportunity cost of holding money and the return for parting with liquidity.

Interest Rate Risk: Interest rate risk arises when there is a mismatch between positions, which are subject to interest rate adjustments within a specified period. Interest rate risk is usually assessed from two perspectives: the earnings perspective which focuses on the impact of variation in interest rate on accruals or reported earnings, and the economic value perspective which reflects the impact of fluctuations in interest rates on the economic value of a financial institution.

Interest rate risk also includes risks associated with the term structure of interest rates and basis risk. Basis risk is also known as spread risk and it arises when a bank prices its assets and liabilities using different interest rate basis. On the other hand, risks associated with the term structure of interest rates are also known as the yield curve risk. The impact of shifts in the yield curve on earnings is evaluated using stress tests.

Internal Balance: This refers to a state of convergence between domestic output and absorption or expenditure. When output is identical with expenditure, internal balance is considered to have been achieved and the rate of inflation is expected to be stable. The achievement of the savings-investment identity is also viewed as internal balance. Monetary and fiscal policies and external debt management measures are usually applied to achieve internal balance.

Key Risk Indicator: A key risk indicator is a risk item that has been assessed to be important, given all relevant factors. This indicator is used to monitor exposure to risks and could be quantitative or qualitative in nature. It should be forward-looking in order to serve as an effective risk mitigant.

Liquidity Ratio: This ratio is defined as the ratio of total specified liquid assets to total current liabilities and reflects the liquidity position of a bank.

Liquidity Risk: Liquidity risk is the potential loss to a bank, arising from either its inability to meet its obligations as they fall due or to fund increases in assets without incurring unacceptable costs or losses. Liquidity risk should not be seen in isolation, because financial risks are not mutually exclusive and liquidity risk is often triggered by consequences of other bank risks, such as credit, market and operational risks.

Market Capitalisation is the market value of a company's issued share capital. It is the product of the current quoted price of shares and the number of shares outstanding. The term is also used as a performance indicator of the capital market.

Maximum Lending Rate: This refers to the rate charged by banks for lending to customers with a low credit rating.

Minimum Rediscount Rate: This refers to the amount that is charged by the CBN for lending to banks in the performance of its function of lender-of-last resort and also as a signal of the desired direction of monetary policy.

Monetary Base (or High-powered Money or Reserve Money) comprises certain liabilities of the CBN and includes currency-in-circulation and total bank reserves. The main sources of monetary base are the net foreign assets of the CBN, net claims on government, claims on deposit money banks, and other assets (net) of the CBN.

Money Supply (or Money Stock) refers to the total value of money in the economy and this consists of currency outside banks with the non-bank public (notes and coins) and deposits with the deposit money banks (DMBs). For purposes of policy, there are two variants of money supply in Nigeria – M_1 and M_2. M_1 is the narrow measure of money supply which includes currency outside banks with the non-bank public and demand deposits (current accounts) at the deposit money banks. M_2 is the broad measure of money supply and includes M_1 and savings and time deposits and foreign currency deposits at the DMBs. Savings and time deposits and foreign currency deposits are also called quasi-money. M_2 measures total liquidity in the economy. Excess liquidity is the amount of liquidity over and above the optimum level of liquidity, determined by the levels of output and prices.

Net Foreign Assets (NFA) constitute the foreign exchange holdings of the CBN and the deposit money banks, after netting out the claims of foreigners. Changes in NFA should reflect developments in the balance of payments. A deficit in the balance of payments would lead to a decrease in foreign asset holdings and, ultimately, the money stock. A surplus in the balance of payments produces the opposite effect.

New Issues are securities raised in the primary market for the first time.

Nominal Exchange Rate: The nominal exchange rate is the price of one currency relative to another.

Nominal Interest Rate: This is the actual rental value paid for the use of money or credit. It includes the effects of inflation and uncertainty.

Offer for Sale is an offer by shareholders to sell existing shares to the public. The sale is effected usually through stockbrokers and does not affect the capital base of a company.

Offer for Subscription is an invitation by a company to the public to subscribe to new issues. This increases the capital base of the company.

Open Market Operations involve the discretionary power of the CBN to purchase or sell securities in the financial markets in order to influence the volume of liquidity and levels of interest rates which, ultimately, would affect money supply. When the CBN sells financial instruments, the liquidity (excess reserves) of the banking system reduces. This restricts the capacity of banks to extend credit or induce monetary expansion. On the other hand, when the CBN purchases such instruments, it injects money into the system and banks' ability to expand credit is enhanced.

Operational Risk: Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risk is present in virtually all banking transactions and activities.

Other Assets (net) means the other assets of the CBN and deposit money banks less (their) other liabilities.

Preference Shares are shares of companies on which dividends must be paid before any other shares.

Prime Lending Rate: This is the interest rate applied to loans made to customers with the highest rating. For each bank, this rate also represents the minimum lending rate.

Prudential Guidelines: These are guidelines and practices which all licensed banks are required to adhere to in reviewing and reporting their performance, particularly in the areas of credit portfolio classification and disclosure; the provision for non-performing facilities and interest accrual; the classification of other assets; and off-balance sheet engagements.

Real Exchange Rate: This is the nominal exchange rate deflated by change in relative prices. *See also* ***Nominal Exchange Rate***

Real Interest Rate: This is the nominal interest rate adjusted for expected inflation. In order to encourage savings, real interest rate is expected to be positive.

Recurrent Expenditure: Expenditure on goods and services (other than capital assets) used in the process of production within one year. Interest on loans is included.

Required Reserves are a fraction of commercial and merchant banks' money held for the purpose of backing up their deposit operations and partly to control the level of liquidity in the economy. They are made up of cash reserves and liquid assets and specified in the form of ratios. The cash reserves ratio is the percentage of deposit money banks' cash deposits with the CBN in relation to their total demand, savings and time deposits liabilities. The liquidity ratio is the percentage of banks' liquid assets to their total deposit liabilities.

Reserve Money: *see* ***Monetary Base***

Reserve Requirement refers to the proportion of total deposit liabilities which the deposit money banks are expected to keep as cash in vaults and deposits with the CBN. The CBN can control the money stock by varying the requirement as desirable. Usually, banks keep reserves over and above the legal requirement for safety. The cash ratio requires the deposit banks to keep a certain proportion of their total deposit liabilities as cash balances with the CBN, while the liquidity ratio stipulates the proportion of total deposits to be kept in specified liquid assets, mainly to safeguard the ability of banks to meet depositors' cash withdrawals and ensure confidence in the banking system. The CBN also has powers to call for special deposits from banks for the purpose of controlling liquidity.

Rights Issues are shares offered to companies' existing shareholders in proportion to the number of shares held and usually at below the market price to make the offer attractive.

Savings Deposit Rate: The savings deposit rate is the amount paid by banks for funds withdrawable after giving seven days' notice. This restriction is, however, seldomly applied.

Total Reserves: This is the sum of required reserves and excess reserves.

Vault Cash: Deposit money banks keep "petty cash" in their vaults for emergency transactions before they can access their accounts with the CBN. The amount so kept is called vault cash.

Ways and Means Advances constitute a portion of credit by the CBN to government. These are temporary loans to government to bridge shortfalls in revenue. Statutorily, the CBN must not give more than 5.0 per cent of government's current revenue.

Yield Curve: Shows the relationship between the rate of interest and the time to maturity of different financial assets.